

# HKEX and SFC Reduce Barriers for Specialist Technology Company IPOs and De-SPACs



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The Stock Exchange of Hong Kong Limited (HKEX) and Securities and Futures Commission (SFC) have announced a temporary relaxation of the minimum market capitalization requirements for Specialist Technology Company IPOs, as well as the third-party investment requirements for Special Purpose Acquisition Companies (SPACs) seeking to undertake de-SPAC transactions. The changes are in response to market feedback and market conditions, and will apply for an initial period of three years, from September 1, 2024, to August 31, 2027.

## Specialist Technology Companies

HKEX introduced a new Chapter 18C of the Rules Governing the Listing of Securities on HKEX (Listing Rules) in March 2023, to facilitate the listing of early-stage high tech and new economy companies, referred to as Specialist Technology Companies, including companies still engaged in research and development or at a pre-commercialization stage. See our May 2023 article "[Hong Kong's New Listing Rules for Specialist Technology Companies](#)" for a fuller discussion.

In the 17 months since the rules were introduced, only two Specialist Technology Companies have successfully completed an IPO on HKEX.

Under the relaxation of the Listing Rules, the initial market capitalization at the time of listing required for Specialist Technology Companies is as follows:

	Previous minimum market capitalization		New minimum market capitalization
<b>Commercial Companies</b>	HK\$6 billion	↓	HK\$4 billion
<b>Pre-Commercial Companies</b>	HK\$10 billion	↓	HK\$8 billion

Note: A Commercial Company is a company which has revenue of at least HK\$250 million for its most recent audited financial year. A Pre-Commercial Company is a company that does not meet the revenue threshold for a Commercial Company.

Notably, both new thresholds are consistent with the thresholds most commonly suggested in market feedback to HKEX's consultation process in 2022.

## De-SPAC Transactions

HKEX introduced a new Chapter 18B of the Listing Rules in January 2022 to permit the listing of SPACs in Hong Kong. Under the rules, SPACs are required to announce a business combination, known as a de-SPAC transaction, within 24 months of listing, and complete the transaction within 36 months of listing. Both deadlines can be extended by a further six months with shareholder and HKEX approval. In the 32 months since the rules came into effect, five SPACs have successfully listed on HKEX, of which three have announced de-SPAC transactions and one has applied to extend its de-SPAC deadlines by six months. However, so far, no de-SPAC transactions have successfully closed.

# HKEX and SFC Reduce Barriers for Specialist Technology Company IPOs and De-SPACs

As part of a de-SPAC transaction, SPACs are required to conduct a PIPE (private investment in public equity) share placement to independent institutional investors. The simultaneous PIPE transaction has been subject to a minimum size on a sliding scale, with a minimum PIPE investment of 25% for a de-SPAC valuation of less than HK\$2 billion to 7.5% for a de-SPAC valuation of HK\$7 billion or more. This requirement to undertake a sizeable PIPE transaction, with stringent criteria on qualifying investors, has proved challenging for SPAC issuers because it can be difficult to identify and secure appropriate investors willing to commit substantial investments.

Under the new relaxation, the minimum size of the PIPE transaction is now reduced to the lower of the amount required under the above existing thresholds, or HK\$500 million in value.

In addition, the independence test applied to PIPE investors has also been relaxed, so that only the following persons will not be considered independent third-party investors:

- Core connected persons of the SPAC or the business with which it is merging (de-SPAC Target), except for any substantial shareholder of the SPAC or the de-SPAC Target that is considered a core connected person only because of the size of its shareholding in the SPAC or the de-SPAC Target.

- Controlling shareholders of the SPAC or the de-SPAC Target.
- Founders of the de-SPAC Target and their respective close associates.

Previously, the more stringent test for independence that applied to independent financial advisors under the Listing Rules was also applied to PIPE investors.

Again, these relaxations reflect feedback during the consultation process for these rules in 2021.

## Conclusion

These relaxations are a welcome development, and should facilitate companies looking to execute transactions in challenging markets. As a result, more companies may take up the opportunities afforded by the Specialist Technology Company and SPAC listing regimes than has been the case thus far. This follows other recent initiatives HKEX has taken to enhance competitiveness, including loosening of the restrictions on “double dipping” in IPOs and new rules to permit treasury shares. See our March 2024 “[Hong Kong Regulatory Update](#)” (IPO “double-dipping”) and our April 26, 2024, client alert, “[HKEX Announces Consultation Conclusion for New Treasury Shares Rules](#).”

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