

Consultation Paper

# Proposals to Optimise IPO Price Discovery and Open Market Requirements

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# TABLE OF CONTENTS

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	Page Number
Executive Summary .....	5
Chapter 1: Key Proposals.....	16
I. Open Market Requirements.....	16
A. Calculation of Public Float.....	16
A.1 Basis for Calculation of Public Float Percentage .....	16
A.2 Meaning of “the Public” .....	22
B. Public Float Thresholds and Disclosure .....	24
B.1 Initial Public Float Thresholds .....	24
B.2 Ongoing Public Float Requirements.....	33
B.3 Ongoing Public Float Disclosure .....	41
C. Initial Free Float Requirement.....	45
D. Requirements for A+H Issuers and Other Prescribed Types of Issuers.....	50
D.1 Initial Minimum Percentage and Market Value of Listed Shares.....	50
D.2 Ongoing Minimum Percentage and Market Value of Listed Shares.....	55
II. IPO Offering Mechanism .....	57
Background .....	57
A. Regulatory Lock-up on Cornerstone Investment .....	64
B. Allocation to the Placing Tranche.....	67
C. Allocation to the Public Subscription Tranche .....	72
D. Restrictions on Reallocation and PO Over-allocation .....	78
III. Pricing Flexibility Mechanism.....	84
Chapter 2: Other Rule Amendments.....	91

I.	Placing Guidelines.....	91
II.	Consequential Rule Amendments .....	94
	A. Bonus Issues of a Class of Securities New to Listing .....	94
	B. Statement of Minimum Public Float in Listing Document.....	96
	C. Exceptions for Secondary Listings of Overseas Issuers.....	97
	D. Minimum Market Value of H Shares.....	98
	E. Mandatory Public Offer Requirement for GEM issuers.....	99
III.	Other Rule Amendments .....	101
	A. Determination of Market Capitalisation for New Listing Applicants .....	101
	B. Listing Notice .....	103
	C. SPAC Warrants and Successor Company’s Warrants .....	104
	D. Allocation of Shares in Specialist Technology Companies .....	106
	Definitions.....	107

## **Appendices**

- Appendix I: Proposed Amendments to the Main Board Listing Rules
- Appendix II: Proposed Amendments to the GEM Listing Rules
- Appendix III: Mapping of Proposals to References to the Listing Rules
- Appendix IV: Comparison of Open Market Requirements Among International Stock Exchanges
- Appendix V: Summary of Open Market Requirements
- Appendix VI: Privacy Notice

## HOW TO RESPOND TO THIS CONSULTATION PAPER

The Exchange, a wholly-owned subsidiary of HKEX, invites written comments on the changes proposed in this paper, or comments on related matters that might have an impact upon the changes proposed in this paper, on or before **Wednesday, 19 March 2025**.

You can respond by completing the questionnaire which can be accessed via the link and QR code below:

Link: [https://surveys.hkex.com.hk/jfe/form/SV\\_7Qx1QZHHgIOJ3Uy](https://surveys.hkex.com.hk/jfe/form/SV_7Qx1QZHHgIOJ3Uy)

QR code:



Our submission enquiry number is (852) 2840-3844.

Respondents are reminded that the Exchange will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in **Appendix VI**.

Submissions received during the consultation period by **Wednesday, 19 March 2025** will be taken into account before the Exchange decides upon any appropriate further action. The Exchange will develop a consultation conclusions paper which will be published in due course.

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## EXECUTIVE SUMMARY

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### Purpose

1. This Consultation Paper seeks market feedback on its regulatory framework relating to IPO price discovery and open market requirements.

### Background

2. We have received feedback that certain requirements in our regulatory framework relating to the IPO price discovery process and open market requirements should be improved upon to enhance the competitiveness of the Hong Kong listed securities market.
3. The Exchange's proposals represent a holistic reform of its regulatory framework relating to the IPO price discovery process and open market requirements, ensuring its listing mechanism remains attractive and competitive for existing and prospective issuers. In particular, the Exchange proposes to:
  - (a) Optimise the price discovery process for IPOs to increase the participation of "price setting" investors, thereby reducing the likelihood of the final offer price being set at a large disparity to the actual trading price when dealings in those shares commence.
  - (b) Review open market requirements, ensuring issuers will have sufficient shares in public hands that are available for trading at listing, whilst relaxing certain percentage thresholds which would imply a bar that may be too high in absolute dollar value.
4. From September to November 2024, the Exchange conducted preliminary discussions with a broad range of stakeholders, including representatives from investment banks, public institutional investors, private equity firms, retail brokers, and both prospective and already listed issuers. The proposals set out in this paper have taken into account the key views and comments made by these stakeholders in those preliminary discussions.

## Current Requirements and Issues

### Open Market Requirements

#### Public float

5. Public float refers to the portion of an issuer's securities that are held in the hands of the public<sup>1</sup>.

#### *Calculation of public float*

6. The Exchange currently requires issuers to calculate their public float percentage by reference to the total number of shares they have in issue (excluding treasury shares).
7. The Listing Rules also state that shares that are in issue but listed on other regulated market(s) (e.g. A shares listed on a PRC stock exchange) are counted in the numerator for the purpose of this calculation, even though they are not fungible with the shares listed in Hong Kong and so do not contribute towards the formation of an open market here.
8. Our current method of calculating the percentage of public float is out of line with requirements of other international stock exchanges that also regulate an issuer's minimum public float as a percentage. These exchanges generally adopt a "class-based approach" by only taking into account the class of shares that are listed on their exchanges.

#### *Initial public float*

9. The Exchange's current initial minimum public float threshold is 25%. The Exchange may accept a lower initial public float threshold of between 15% and 25% if an applicant has an initial market capitalisation of over HK\$10 billion. Public floats below 15% may be accepted, on a case-by-case basis, if an applicant has a very large initial market capitalisation (far above HK\$10 billion).
10. These initial public float thresholds are relatively high compared to those of other international stock exchanges. The uncertainty arising from the case-by-case waiver approach may also contribute towards the decision of some applicants to choose an alternative listing venue.

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<sup>1</sup> For this purpose, an issuer's core connected persons (including its directors, chief executives, substantial shareholders, and (for a PRC issuer) supervisors, and close associates of any of them), and certain other parties with arrangements with core connected persons, are not considered to be members of "the public". See MB Rule 8.24 (Notes 2 and 3 to GEM Rule 11.23) for the full meaning of "the public".

### ***Ongoing public float***

11. Currently, after listing, issuers are required to maintain the same public float they had at listing, irrespective of whether their market capitalisation rises or falls over time. Some other international stock exchanges apply less stringent ongoing public floats than those they require at initial listing.
12. A listed issuer may be discouraged from conducting certain corporate transactions (e.g. share repurchases) if doing so would result in a breach of the Listing Rules (where its public float percentage falls below 25%<sup>2</sup>), even if the transaction may be beneficial to the issuer and its shareholders. A public float shortfall could also arise purely from an acquisition of securities by an independent third party, if that third party became a substantial shareholder as a result.
13. The Exchange will suspend trading in an issuer's shares if its public float percentage falls below 15%<sup>3</sup>. This deprives shareholders of their ability to trade when an open market may still exist in the securities.

### **Free float**

14. Free float refers to the portion of an issuer's shares that are not subject to any disposal restrictions ("lock-ups").
15. Upon an issuer's listing, some of its shareholders may be subject to restrictions on the disposal of the shares they hold, including those under applicable laws and regulations, as well as contractual lock-ups.
16. Although an issuer is required to meet minimum initial public float thresholds at the time of listing, currently the Exchange does not impose any requirement that a portion of these shares be free from lock-up<sup>4</sup>. If a substantial portion of the shares counted in the public float are held by persons subject to disposal restrictions, they would be unavailable for trading for a period of time after listing, which may negatively affect the establishment of an active trading market following listing.
17. Some international stock exchanges impose a free float requirement, as part of their public float requirement, to ensure sufficient liquidity in trading an issuer's shares upon listing.

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<sup>2</sup> Or a lower percentage of between 15% and 25% for an issuer with an initial market capitalisation of over HK\$10 billion.

<sup>3</sup> Or 10% for an issuer that has been granted a lower public float percentage at listing.

<sup>4</sup> This is except for free float related requirements that are imposed on Biotech Companies (MB Rule 18A.07) and Specialist Technology Companies (MB Rule 18C.10).

## A+H issuers

18. PRC issuers<sup>5</sup> (and issuers with other share class(es) listed overseas<sup>6</sup>) must ensure that they list at least 15% of the total number of their issued shares on the Exchange. In practice, this requirement is most relevant to A+H issuers<sup>7</sup>, which normally need to rely on a Hong Kong IPO (of H shares) to meet this requirement<sup>8</sup>.
19. This percentage can represent a very large amount, by dollar value, for issuers with very large total market capitalisations. These issuers may have no immediate need to raise such a large amount of funds and a smaller offer size may better suit their commercial requirements.

## IPO Offering Mechanism

20. Box 1 below provides an overview of Hong Kong's IPO offering mechanism and the process of price discovery.

### Box 1: Overview of Hong Kong's IPO offering mechanism

In Hong Kong, IPO shares are usually offered in “tranches” as set out in the table below:

Tranche	Description
<b>Placing Tranche</b>	
Cornerstone placing tranche <sup>9</sup>	Shares placed with “cornerstone investors” (chosen by the new applicant) who commit to participate in the IPO at the final offer price (yet to be determined), for a pre-agreed total investment amount, and have their identity information disclosed in the prospectus. They receive guaranteed allocation of shares in return for their commitment to the IPO.
Bookbuilding placing tranche <sup>10</sup>	Shares placed with investors following a “bookbuilding” process, during which they place orders (including

<sup>5</sup> These are “PRC issuers” as defined under the Listing Rules (MB Rule 19A.04; GEM Rule 1.01), which refer to issuers duly incorporated in Mainland China as joint stock limited companies.

<sup>6</sup> These are issuers with, apart from the class of shares for which listing is sought on the Exchange, one class of shares or more that are listed on other regulated market(s).

<sup>7</sup> These are PRC issuers with domestic shares listed on any PRC stock exchanges (i.e. A shares) at the time of listing on the Exchange.

<sup>8</sup> For A+H issuers, their A shares and H shares are traded on separate exchanges and not fungible.

<sup>9</sup> For the avoidance of doubt, both the cornerstone placing tranche and the bookbuilding placing tranche involve bookbuilding and placing activities as prescribed under paragraph 21.1.1 of the SFC Code of Conduct and are therefore governed by paragraph 21 of the SFC Code of Conduct (see paragraph 217).

<sup>10</sup> Ibid.



	expressions of interests) as to the number of shares they wish to subscribe for and the price at which they are willing to pay for them, with no commitment to doing so until the final offer price is determined.
<b>Public Subscription Tranche</b>	Shares allocated to any investors (not chosen by the issuer) who have applied for them in the offer period. Allocation is normally in proportion to the number of shares applied for. By submitting an application, the investors commit to pay at the (yet to be determined) final offer price.
<b><i>IPO price discovery process</i></b>	
<p>In a typical IPO on the Exchange, an indicative price range would be included in the issuer's prospectus. The final offer price is fixed by agreement between the overall coordinator(s) and the issuer after actual market demand for the offer shares under the placing tranche (through bookbuilding) and the public subscription tranche is determined.</p> <p>Cornerstone investors can negotiate the top of the offer price range that is initially shown on the IPO prospectus, as this is the highest price they commit to pay to purchase the IPO shares.</p> <p>Bookbuilding placing tranche investors indicate the price they are willing to pay and the amount of shares they are willing to subscribe to facilitate the determination of the final offer price. They are therefore key "price setters" in an IPO.</p> <p>Public subscription tranche investors do not have negotiation power in the pricing process and are regarded as "price takers" in an IPO. They must purchase the number of shares that are allocated to them, regardless of the level of the final offer price (i.e. even if that price is at the top of the offer price range).</p>	

### **Regulatory lock-up on cornerstone investment**

21. IPO securities placed to cornerstone investors are subject to a six-month lock-up period from the listing date. A cornerstone investor cannot dispose of these securities during this period.
22. During the lock-up period, shares held by cornerstone investors do not contribute to an open market. Also, there may be downward pressure on an issuer's share price as the end of the lock-up approaches, as other investors anticipate that some cornerstone investors will seek to dispose of their shares immediately upon the lock-up expiry.

### **Bookbuilding placing tranche**

23. The Exchange does not impose any minimum percentage of IPO shares that must be allocated to the bookbuilding placing tranche. This means that it is possible for the bookbuilding placing tranche to be relatively small and so may not contribute effectively to the determination of the final IPO price.

## Public subscription tranche

24. The Exchange currently requires an issuer to allocate a minimum percentage of its IPO shares to the public subscription tranche. Also, an issuer must switch the allocation of IPO shares from the placing tranche to the public subscription tranche if there is significant excess demand under the public subscription tranche<sup>11</sup> (the “clawback mechanism”).
25. Most other international stock exchanges do not prescribe any minimum allocation requirement for a public subscription tranche and do not impose any mandatory clawback mechanism requirement.
26. The minimum allocation to the public subscription tranche requirement, together with the clawback mechanism, reduces the proportion of shares that can be allocated to investors in the bookbuilding placing tranche who, as mentioned above, are key “price setters” of the final offer price (see Box 1). In these circumstances, the issuer may be able to set a high final IPO price that would not have been acceptable to sufficient investors in the bookbuilding placing tranche at its original size. This results in a greater risk of poor share price performance after listing.

## Pricing Flexibility Mechanism

27. After setting an indicative offer price (or offer price range) for an IPO in the published prospectus, a new applicant is permitted, under the Existing Pricing Flexibility Mechanism, to set the final offer price at not more than 10% below the indicative offer price (or bottom end of the offer price range), before listing, without delaying its listing or publishing a supplemental prospectus.
28. However, to price an IPO above the indicative offer price (or offer price range), a new applicant is still required to publish a supplemental prospectus and delay its listing timetable.
29. The Exchange did not introduce any upward pricing flexibility under the Existing Pricing Flexibility Mechanism because, before the launch of FINI<sup>12</sup>, it was mandatory for investors under the public subscription tranche to fund the maximum offer price plus fees at the time of application, and there was no system in place for these investors to make subsequent adjustments to pay a higher final offer price. Since the launch of FINI, however, public offer subscription monies are now settled only after pricing and balloting (see paragraph 292).

## Proposals

30. Table 1 below summarises our key proposals to address the issues identified above.

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<sup>11</sup> This is even if there is also significant demand under the placing tranche.

<sup>12</sup> A digitalised IPO settlement platform launched in November 2023 to shorten the time between the pricing of an IPO and the trading of shares from five business days (T+5) to two business days (T+2).

**Table 1: Summary of key proposals**

Subject (Section Reference in Chapter 1)	Key Proposal
<b>I. Open Market Requirements</b>	
<b>Calculation of public float</b>	
<b>We propose to clarify the basis for calculating public floats.</b>	
Basis for calculation of public float percentage (Section I.A.1)	<p>Determine public float percentage normally by reference to the total number of securities of that class only.</p> <p>In the case of a PRC issuer with other shares in the class to which H shares belong (e.g. A shares or unlisted shares), only the H shares held by the public would be included in the numerator in calculating an issuer's public float percentage. A shares or unlisted shares (as the case may be) would, however, be included in the denominator.</p>
<b>Initial public float</b>	
<b>We propose to bring our minimum public float at listing requirements more closely in line with those of other international stock exchanges.</b>	
Initial public float thresholds (Section I.B.1)	Tiered initial public float thresholds (ranging between 5% and 25%) of the relevant class of securities new to listing <sup>13</sup> , except for A+H issuers (and other prescribed types of issuers <sup>14</sup> ), for whom bespoke initial public float thresholds apply (see Section I.D.1).
<b>Ongoing public float</b>	
<b>We seek feedback on appropriate ongoing public float requirements and the establishment of an OTC market in Hong Kong.</b>	
Ongoing public float requirements (Section I.B.2)	Subject to market feedback on our proposed initial public float thresholds (see proposals in Section I.B.1 and Section I.D.1), we seek views on the appropriate ongoing public float requirements, including whether issuers should be allowed additional flexibility to maintain a lower public float

<sup>13</sup> The tiered threshold applies to a PRC issuer with unlisted shares at the time of listing. As stated above, the public float percentage in such case is calculated based on H shares in the numerator and the denominator is based on the total number of issued shares in the relevant class of shares at the time of listing.

<sup>14</sup> PRC issuers with other listed shares but not an A+H issuer (i.e. a PRC issuer with other listed shares listed on overseas regulated market(s)), and issuers with other share class(es) listed overseas.

Subject (Section Reference in Chapter 1)	Key Proposal
	level after listing, in view of the issues we have identified (see paragraphs 12, 13, and 102 to 111) <sup>15</sup> .
OTC market concept (Section I.B.2)	We seek views on whether an OTC market should be established in Hong Kong to enable trading in securities including the shares of issuers that have been delisted for reasons including a failure to meet ongoing public float requirements.
Ongoing public float disclosure (Section I.B.3)	Disclose actual public float percentage in annual reports.
<b>Free float</b>	
<b>We propose to ensure that a certain portion of shares in public hands can be freely traded upon listing to help provide liquidity.</b>	
Initial free float requirement (Section I.C)	<p>For a new applicant, shares held by the public and not subject to disposal restrictions at the time of listing must either:</p> <ul style="list-style-type: none"> <li>• Represent at least 10% of the total number of issued shares in the class for which listing is sought<sup>16</sup>, with an expected market value of at least HK\$50 million; or</li> <li>• Have an expected market value of at least HK\$600 million.</li> </ul>
<b>A+H issuers</b>	
<b>We propose to reduce the minimum threshold for a relative proportion of shares A+H issuers (and other prescribed types of issuers) must list in Hong Kong (H shares in the case of a PRC issuer), whilst ensuring this amount is large enough to attract a “critical mass” of investor interest and form a sufficient public float.</b>	
Initial minimum percentage and market value of shares (Section I.D.1)	For a new applicant that is a PRC issuer with other listed shares (such as an A+H issuer), the H shares for which listing is sought on the Exchange must either:

<sup>15</sup> Subject to the feedback on our initial public float proposals, we would seek market feedback on detailed ongoing public float proposals in a subsequent consultation. Changes to both initial and ongoing public float requirements would be implemented together, as one package, and only after that subsequent consultation had concluded.

<sup>16</sup> In the case of a new applicant that is a PRC issuer with other listed shares, the “class for which listing is sought” will be modified to mean H shares. In the case of a new applicant that is a PRC issuer with unlisted shares, the percentage is calculated based on H shares in the numerator and issued shares in the class to which H shares belong in the denominator at the time of listing.

Subject (Section Reference in Chapter 1)	Key Proposal
	<ul style="list-style-type: none"> <li>• Represent at least 10% of the total number of shares in the class to which H shares belong (excluding treasury shares); or</li> <li>• Have an expected market value of at least HK\$3 billion at the time of listing.</li> </ul> <p>For a new applicant that is an issuer with other share class(es) listed overseas, the class of shares for which listing is sought on the Exchange must either:</p> <ul style="list-style-type: none"> <li>• Represent at least 10% of the total number of issued shares (excluding treasury shares); or</li> <li>• Have an expected market value of at least HK\$3 billion at the time of listing.</li> </ul> <p>The minimum initial public float thresholds for these new applicants would be the same as the thresholds set out above.</p>

## II. IPO Offering Mechanism

### Regulatory lock-up on cornerstone investment

**We seek market feedback on retaining or “staggering” the existing lock-up.**

Regulatory lock-up on cornerstone investment (Section II.A)	<p>Consult on either:</p> <ul style="list-style-type: none"> <li>(A) Retaining the current six-month lock-up period; or</li> <li>(B) Allowing staggered lock-up releases (50% after three months from listing, and the remaining 50% after six months from listing).</li> </ul>
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### Placing tranche

**We propose to ensure that every IPO is priced by reference to a robust bookbuilding mechanism by requiring that an issuer allocate at least half of its offer shares to the bookbuilding placing tranche; and remove the minimum shareholder spread requirement under the placing tranche.**

Allocation to the placing tranche (Section II.B)	<p>Minimum 50% allocation (of shares initially on offer) to bookbuilding placing tranche (except for Specialist Technology Companies); and</p> <p>Remove the requirements that there must be: (a) not fewer than three holders to each HK\$1 million is placed; and (b) a minimum of 100 holders in an IPO placing tranche.</p>
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**Subject (Section Reference in Chapter 1)**

**Key Proposal**

**Public subscription tranche**

**We propose to preserve the right of public investors to an allocation of IPO shares whilst bringing our requirements more closely in line with those of other international stock exchanges by limiting the extent of these allocations to minimise the risk of mispricing.**

Allocation to the public subscription tranche (Section II.C)

Require applicants to adopt either:

*Mechanism A:* Mandatory initial allocation of 5% of the offer shares to the public subscription tranche, and mandatory clawback mechanism that increases the allocation to up to 20%; or

*Mechanism B:* Minimum initial allocation of 10% of the offer shares to the public subscription tranche without clawback mechanism (not available to Specialist Technology Companies).

**III. Pricing Flexibility Mechanism**

**We propose to improve our competitiveness by allowing new applicants to set the final IPO price at above the indicative offer price range without delaying their IPO timetables.**

Pricing Flexibility Mechanism (Section III)

Permit upward pricing flexibility of up to 10% above top of offer price range; and

Consult on either:

(A) Retaining the current requirement that the top of the initial offer price range must be set at not more than 30% of the bottom of that range; or

(B) Amending the current requirement to require the top of the initial offer price range to be set at not more than 20% of the bottom of that range.

31. Our proposed Listing Rule amendments are set out in Appendices I and II to this paper. Mapping tables setting out our proposals and the corresponding references to the Listing Rules are included in Appendix III to this paper.

**Request for Comment**

32. We invite public comments on our proposals. Responses to this Consultation Paper and any other comments on related matters that may have an impact upon the changes proposed in this paper should be submitted to us by **Wednesday, 19 March 2025**.

## **Next Steps**

33. After reviewing all responses and comments, the Exchange will develop consultation conclusions and final amendments to the Listing Rules. Revisions reflecting comments will be incorporated in the draft amendments to the Listing Rules.

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## CHAPTER 1: KEY PROPOSALS

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### I. Open Market Requirements

#### A. Calculation of Public Float

##### A.1 Basis for Calculation of Public Float Percentage

###### Background

34. A “public float” is the portion of an issuer’s listed shares in the hands of the public. An issuer’s core connected persons (including its directors, controlling shareholders, substantial shareholders, and (for a PRC issuer) supervisors, and close associates of any of them), and certain other parties with arrangements with core connected persons, are not considered to be members of “the public” (see Section I.A.2 for the definition of “the public” under the Listing Rules<sup>17</sup>).
35. The purpose of the public float requirement is to facilitate an “open market” in the trading of listed securities in Hong Kong by:
- (a) ensuring that there are shares to be traded between shareholders who are not core connected persons; and
  - (b) reducing the possibility of market manipulation and excessive share price volatility driven by the vested interests of core connected persons.
36. At the time of an IPO, the satisfaction of a public float threshold also serves as an indicator of the level of public interest in the issuer’s shares<sup>18</sup>.

###### Current requirements

###### *Minimum prescribed percentage of public float*

37. The minimum percentage of public float is currently expressed as a percentage of an issuer’s total number of issued shares<sup>19</sup>, i.e. the numerator comprises its shares held by the public and the denominator comprises the total number of its issued shares (excluding treasury shares).

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<sup>17</sup> The meaning of “the public” is set out in MB Rule 8.24 (Notes 2 and 3 to GEM Rule 11.23).

<sup>18</sup> HKEX (January 2008), [Combined Consultation Paper on Proposed Changes to the Listing Rules](#), paragraph 5.1.

<sup>19</sup> MB Rule 8.08(1) (GEM Rule 11.23(7)).



### PRC issuers

38. A PRC issuer normally has, apart from H shares, other shares (such as A shares or unlisted shares) which are typically in the same class as its H shares<sup>20</sup>. For the purpose of the calculation of public float:
- (a) where a PRC issuer has other listed shares (e.g. A shares listed on a PRC stock exchange), those shares are included in both the numerator and the denominator of the public float calculation<sup>21</sup>; and
  - (b) where those other shares are not listed on any regulated market (i.e. unlisted shares), those shares are included in the denominator only.
39. A PRC issuer's H shares are counted for the purpose of the calculation of public float in both the numerator and the denominator<sup>22</sup>. This includes any H shares converted from unlisted shares, upon listing, under the H share full circulation programme, as approved by the CSRC<sup>23</sup>.

### ***Minimum market value in public hands for new applicants***

40. In addition to the percentage-based requirements above, the expected market value at the time of listing of the securities of a new applicant that are held by the public must be at least HK\$125 million (GEM: HK\$45 million)<sup>24</sup>.

### **Issues**

#### ***Existing requirement counts shares that do not contribute to an open market in Hong Kong***

41. Shares that do not contribute to an open market in Hong Kong are currently counted for the purpose of calculating the public float requirement.
42. In particular, A shares listed on a PRC stock exchange are not fungible with the H shares listed on the Exchange (i.e. A shares cannot be converted into H shares). This means

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<sup>20</sup> The share capital of a PRC issuer listed on the Exchange typically consists of H shares and domestic shares (listed or unlisted), that are both ordinary shares and are considered as one class of shares under relevant PRC laws and regulations, having the same substantive rights such as voting, dividend and asset distribution on liquidation.

<sup>21</sup> MB Rule 19A.13A (GEM Rule 25.07A).

<sup>22</sup> MB Rule 8.08 (GEM Rule 11.23). In the case of a PRC issuer, "securities for which listing is sought" mean H shares (for which listing is sought).

<sup>23</sup> Where a PRC issuer that has unlisted shares (e.g. domestic shares or foreign shares), those shares can only be listed and circulated on the Exchange under the H share full circulation programme (subject to approval by the CSRC). See CSRC (November 2019), Guidelines on Applying for "Full Circulation" of Unlisted Domestic Shares of H-share Listed Companies ([H 股公司境内未上市股份申请“全流通”业务指引](#)) (Simplified Chinese version only), Article 5. For the purpose of calculation of public float, only those shares which have been converted (and not those that are eligible to be converted) are counted.

<sup>24</sup> MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

A shares are not available for trading in Hong Kong and do not contribute to an open market in trading here. However, they are still counted when calculating an issuer's public float (see paragraph 38(a)).

### ***Comparison with international requirements***

43. Some international stock exchanges also regulate an issuer's public float as a percentage<sup>25</sup>. However, most do so by reference to the class of securities for which listing is sought or the class that is listed, rather than the issuer's total number of issued shares (see Table 17 in Appendix IV to this paper).

### **Proposals**

#### ***Basis for calculation of the minimum prescribed percentage of public float***

44. We propose that the public float percentage of securities new to listing be calculated, normally, by reference to the total number of securities of that class only.
45. In the case of a PRC issuer, the numerator of its public float percentage would be calculated by reference to its H shares only. Any other shares it has in issue (listed or unlisted, as the case may be) that are in the class to which H shares belong would only be included in the denominator.
46. In the case of an issuer with other share class(es) listed overseas, we propose to continue to calculate its public float at listing as a percentage of the issuer's total number of issued shares (of all classes). However, only shares of the class for which listing is sought in Hong Kong will count towards meeting minimum public float thresholds (i.e. in the numerator).

#### ***Basis for calculation of the minimum market value in public hands for new applicants***

47. We propose to clarify the minimum market value in public hands requirement<sup>26</sup> (see paragraph 40) by modifying it to state that the expected market value of the securities of a new applicant for which listing is sought, that are held by the public, must be at least HK\$125 million (GEM: HK\$45 million), at the time of listing.

#### ***Implementation subject to consultation on corresponding ongoing public float requirements***

48. The implementation date of the above proposals would be subject to the outcome of a further consultation on the ongoing public float requirements as set out in Section I.B.2 of this Chapter (see paragraph 117).

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<sup>25</sup> For the purpose of this paper, the Exchange conducted comparison of the relevant requirements with ASX, LSE, SGX and NYSE and Nasdaq. It is noted that ASX, LSE and SGX prescribe public float requirement as a percentage of share capital similar to that of Hong Kong, while NYSE and Nasdaq prescribe public float based on the minimum number of shares held by the public as well as the market value of those shares.

<sup>26</sup> MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

## **Rationale**

### ***Counting shares that contribute to an open market in Hong Kong***

49. Our proposal will ensure that only securities that contribute towards an open market in trading on the Exchange are included in the numerator for the calculation of the public float.
50. Our proposal will also bring the Exchange's requirement more closely in line with those of other international stock exchanges (see paragraph 43 above).
51. In the case of PRC issuers, the denominator for the calculation of the public float takes into account shares in the class to which H shares belong, even if some of those shares may not be available for trading on the Exchange (e.g. A shares or unlisted shares). This is to ensure that the amount of H shares a PRC issuer seeks to list on the Exchange to be held by the public represents a meaningful proportion of all the shares it has in issue that have the same substantive rights as H shares<sup>27</sup>.
52. In the case of a new applicant that is an issuer with other share class(es) listed overseas, we propose to apply the same initial public float thresholds as a PRC issuer with other listed shares (see Section I.D.1), such as an A+H issuer. This is to ensure that the amount of shares they seek to list in Hong Kong is large enough to attract a "critical mass" of investor interest. This is consistent with our current approach<sup>28</sup>.

### ***Minimum market value in public hands for new applicants***

53. The amendment to the minimum market value in public hands (see paragraph 47) is proposed as a consequential amendment to ensure that the requirement only counts the securities to be listed on the Exchange, and not other securities.

## **Impact of our proposal**

54. An illustration of our public float calculations and the applicable thresholds for selected types of issuers, under current and proposed requirements, is set out in Table 20 (in Appendix V to this paper).

### ***Issuers with a single class of shares that are not PRC issuers***

55. For these issuers, the basis for determining the public float of the shares listed on the Exchange will remain the same. This means that overseas listed shares belonging to the same class (as those listed on the Exchange) that are held by the public would, as now, be included in the numerator of the public float calculation.
56. We note that:

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<sup>27</sup> Applying the public float percentage as a percentage of H shares only may result in a PRC issuer seeking to list a much smaller proportion of its share capital when compared to issuers incorporated in other jurisdictions.

<sup>28</sup> MB Rules 8.08(1)(b) and 19A.13A (GEM Rules 11.23(9) and 25.07A).

- (a) issuers with (or seeking) a listing of their shares on the Exchange and on one or more overseas stock exchanges normally list the same single class of shares on all exchanges; and
- (b) issuers with depository receipts or depository shares listed on an overseas stock exchange (e.g. American depository shares (ADSs) listed on a US stock exchange) normally list on the Exchange the underlying shares of those depository shares<sup>29</sup>.

In such cases, we would, as now, count only the underlying shares (and not the depository shares) for the purpose of the public float requirement<sup>30</sup>.

*PRC issuers with a single class of shares and with no other listed shares*

- 57. The calculation of the public float for a PRC issuer with a single class of shares and with no other listed shares would stay the same. These issuers would not be impacted by our proposed changes to the basis for calculation of the public float (i.e. their public float percentages would continue to be calculated by reference to their H shares in public hands as a percentage of the total number of issued shares).

*A+H issuers*

- 58. A PRC issuer with A shares listed on a PRC stock exchange would no longer be required to include A shares held in public hands in the numerator for the purpose of calculating its public float. The H shares in public hands of the A+H share issuer alone would need to be sufficient to meet our proposed public float thresholds (see Section I.D.1).

*Issuers with a WVR structure*

- 59. For issuers with a WVR structure, as a condition for listing, WVRs must be attached to an unlisted class of the issuer's equity securities<sup>31</sup>. Under our proposal, this unlisted class of WVR shares would no longer be included in the denominator for the purpose of calculating the public float of the issuer's listed shares.

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<sup>29</sup> For example, with respect to issuers with ADSs listed in the US which are evidenced by American depository receipts (ADRs), a US depository bank would typically hold the ordinary shares underlying the ADSs, and holders of ADSs (as evidenced by ADRs) would have rights as provided in the deposit agreement. This includes the right to turn in the ADSs to the depository in exchange for the issuer's ordinary shares at a pre-agreed ratio. Under the depository agreement, the depository would agree to pay the holders of ADSs the cash dividends and other distributions it receives on the ordinary shares, after deducting fees and expenses in accordance with the terms of the deposit agreement. When such issuers apply for listing in Hong Kong, they typically apply for listing of the ordinary shares (i.e. the shares underlying the ADSs).

<sup>30</sup> This is because when considering the public float for the shares listed on the Exchange, all shares in issue in that class (including those being held by the US depository bank in the case of an issuer of ADSs as referred to in footnote 29) should be taken into account.

<sup>31</sup> MB Rule 8A.08.

## SPACs

60. SPACs list their SPAC Shares and SPAC Warrants but are prohibited from listing their Promoter Shares and Promoter Warrants<sup>32</sup>. Under our proposal, Promoter Shares and Promoter Warrants would no longer be included in the denominator for the purpose of determining the percentage of public float for the SPAC's listed securities.

### **Question 1**

- 1.1 Do you agree with our proposal to exclude securities that do not contribute to an open market in trading in Hong Kong from the calculation of the public float by:
- (a) requiring the public float percentage of securities new to listing be calculated normally by reference to the total number of securities of that class only (as set out in paragraph 44 of the Consultation Paper)?
  - (b) in the case of a PRC issuer with no other listed shares, requiring the numerator of its public float percentage to be calculated by reference to its H shares only, such that any shares it has in issue that are in the class to which H shares belong would only be included in the denominator (as set out in paragraph 45 of the Consultation Paper)?
  - (c) in the case of a PRC issuer with other listed shares (e.g. A shares listed on a PRC stock exchange), requiring the numerator of its public float percentage to be calculated by reference to its H shares only, such that any other listed shares it has in issue would only be included in the denominator (as set out in paragraph 45 of the Consultation Paper)?
  - (d) in the case of an issuer with other share class(es) listed overseas, requiring the numerator of its public float percentage at listing to be calculated by reference to only the shares of the class for which listing is sought in Hong Kong, such that any shares of other classes it has in issue would only be included in the denominator (as set out in paragraph 46 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 1.2 Do you agree with our proposal to modify the requirement of MB Rule 8.09(1) (GEM Rule 11.23(2)(a)) to clarify that the minimum market value in public hands requirement applies to the securities for which listing is sought (as set out in paragraph 47 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>32</sup> MB Rule 18B.25.

## A.2 Meaning of “the Public”

### Current requirement

61. The Listing Rules exclude from the definition of “the public”<sup>33</sup>:
- (a) any core connected person (CCP) of the issuer;
  - (b) any person whose acquisition of securities has been financed directly or indirectly by a CCP;
  - (c) any person who is accustomed to take instructions from a CCP in relation to the acquisition, disposal, voting or other disposition of securities of the issuer registered in his name or otherwise held by him; and
  - (d) the issuer as the holder of legal or beneficial interests in treasury shares.
62. A CCP is:
- (a) for a company other than a PRC issuer, or any subsidiary of a PRC issuer, a director, chief executive or substantial shareholder<sup>34</sup> of the company or any of its subsidiaries or a close associate of any of them; and
  - (b) for a PRC issuer, a director, supervisor, chief executive or substantial shareholder of the PRC issuer or any of its subsidiaries or close associate of any of them.

### Issue

63. Shares held by a trustee on behalf of specified share scheme participants of a share scheme of a listed issuer are normally regarded as being in the hands of “the public”<sup>35</sup>, even though most of these shares (especially shares that are yet to be allocated to any grantees) would be held by the trustee under the instruction of the issuer.

### Proposals

64. We propose to add the following as persons that should be excluded from the definition of “the public”:

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<sup>33</sup> MB Rule 8.24 (Notes 2 and 3 to GEM Rule 11.23).

<sup>34</sup> Defined in MB Rule 1.01 (GEM Rule 1.01) to, in relation to a company, means a person (including a holder of depositary receipts) who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the company (excluding voting rights attaching to treasury shares), provided always that a depositary shall not be a substantial shareholder merely by reason of the fact that it is holding shares of the issuer for the benefit of the holders of depositary receipts.

<sup>35</sup> This is because such a trustee normally does not fall within the definition of a CCP of the issuer. In some cases, a trustee may be a CCP of the issuer. One example is if a director of the issuer is one of the beneficiaries under the trust (e.g. as a scheme participant).

- (a) any person whose acquisition of shares has been financed directly or indirectly by the issuer (or CCPs); and
  - (b) any person who is accustomed to take instructions from the issuer (or CCPs) in relation to the acquisition, disposal, voting or other disposition of securities of the issuer registered in his name or otherwise held by him.
65. By virtue of our proposal, shares held by a trustee on behalf of share scheme participants of a listed issuer will not be regarded as shares held by the public. However, we propose that shares held by an independent trustee on behalf of independent scheme participants (i.e. shares which have been granted to an independent grantee but unvested under a share scheme)<sup>36</sup> continue to be regarded as shares held in public hands.

### **Rationale**

66. The current definition of “the public” excludes any person whose acquisition of securities has been financed by, or who takes instructions from, a CCP of the issuer (see paragraphs 61(b) and 61(c)). However, these exclusions do not cover acquisition of securities financed by, or at the instructions of, the issuer itself.
67. Shares held by a trustee for a share scheme are generally within the issuer’s control and so do not contribute to the purpose of the public float. Our proposal helps ensure that our public float requirement is fit for purpose and is consistent with its regulatory objective.
68. Where a share award is granted to a scheme participant but not yet vested (see paragraph 65), the issuer and/or the trustee may already cease to have full control over, or rights to, those shares. We believe such shares can be regarded as being held in public hands if the trustee and the relevant scheme participants are not CCPs of the issuer.

### **Question 2**

2.1 Do you agree that we should exclude from the definition of “the public” any person whose acquisition of securities has been financed by the issuer and any person who is accustomed to take instructions from the issuer (as set out in paragraph 64 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

2.2 If your answer to Question 2.1 is “yes”, do you agree with our proposal to regard shares held by an independent trustee which are granted to independent scheme participants and unvested as shares held in public hands (as set out in paragraph 65 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>36</sup> In this context, “independent” means persons who are not CCPs of the issuer.

## B. Public Float Thresholds and Disclosure

### B.1 Initial Public Float Thresholds

#### Current requirements

69. The Listing Rules currently prescribe the minimum public float percentages set out in Table 2 below.

**Table 2: Current initial public float thresholds**

Expected market capitalisation at the time of listing	Minimum public float as a percentage of the issuer's total number of issued shares (excluding treasury shares)
≤HK\$10 billion	25% <sup>37</sup>
>HK\$10 billion	The Exchange may, at its discretion, accept a lower percentage of 15% to 25% <sup>38</sup> .

70. For a PRC issuer or an issuer with other share class(es) listed overseas, the total securities of the issuer held by the public (on all regulated market(s) including the Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares (excluding treasury shares)<sup>39</sup>.

#### Issues

##### *Uncertainty for mega cap new applicants*

71. Although the current approach allows a lower prescribed percentage of public float of between 15% and 25% for large cap issuers<sup>40</sup>, 15% may still represent an extremely large amount of publicly held shares (by dollar value) for mega cap issuers. Accordingly, certain mega cap issuers have applied for, and have been granted, waivers to have an initial public float of below 15%<sup>41</sup>.
72. This case-by-case waiver approach means that, when considering listing on the Exchange, such applicants cannot be certain of the public float we will require. This may deter mega cap new applicants from listing on the Exchange.

<sup>37</sup> MB Rules 8.08(1)(a) (GEM Rules 11.23(7)).

<sup>38</sup> MB Rule 8.08(1)(d) (GEM Rule 11.23(10)).

<sup>39</sup> MB Rules 8.08(1)(b) and 19A.13A (GEM Rules 11.23(9) and 25.07A).

<sup>40</sup> MB Rule 8.08(1)(d) (GEM Rule 11.23(10)).

<sup>41</sup> Among all waivers granted by the Exchange to allow initial public float percentages of below 15% between 2020 and 2023, the applicant of the smallest size had a market capitalisation of HK\$41.7 billion upon listing.



### ***Unfairness in marginal cases***

73. The current approach may also result in unfairness for new applicants on either side of the HK\$10 billion market capitalisation threshold. For example, an issuer with an initial market capitalisation of just below HK\$10 billion would be required to comply with a much higher initial public float threshold (both in percentage terms and dollar terms) than one with an initial market capitalisation of just above HK\$10 billion (if the latter were granted a waiver) as illustrated in Table 3 below.

**Table 3: Examples of applicable initial public float thresholds under existing requirement**

<b>Company</b>	<b>Market capitalisation at the time of listing</b>	<b>Minimum prescribed public float percentage</b>	<b>Corresponding minimum market value of publicly held shares</b>
A	HK\$9.9 billion	25%	HK\$2.5 billion
B	HK\$10.1 billion	15%	HK\$1.5 billion

*Note.* We assume that Company B was approved by the Exchange to comply with a minimum prescribed public float percentage of 15%.

### ***Existing thresholds are relatively high compared to other international stock exchanges***

74. Other international stock exchanges (ASX, LSE and SGX) also prescribe, at the time of listing, a minimum public float as a percentage. US exchanges (Nasdaq and NYSE), however, prescribe that a minimum market value of shares be held by the public.
75. Our current initial public float thresholds are relatively high compared to these exchanges (see Table 4 below for a summary and Table 18 in Appendix IV for the detailed requirements).

**Table 4: Comparison of initial public float requirements on the Exchange and other international stock exchanges**

<b>Stock exchange</b>	<b>Public float requirement</b>		<b>Meaning of public float</b>	
	<b>Percentage</b>	<b>Number of shares and market value</b>	<b>Shares in public hands</b>	<b>Shares not subject to lock-up restriction upon listing</b>
SEHK <sup>42</sup>	15% to 25% (depending on market capitalisation)	Market value of HK\$125 million (GEM: HK\$45 million)	✓	

<sup>42</sup> MB Rules 8.08(1)(a) and (d) (GEM Rules 11.23(7) and (10)); and MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

Stock exchange	Public float requirement		Meaning of public float	
	Percentage	Number of shares and market value	Shares in public hands	Shares not subject to lock-up restriction upon listing
ASX <sup>43</sup>	20%	-	✓	✓
LSE (Main Market) <sup>44</sup>	10%	-	✓	✓
SGX (Mainboard) <sup>45</sup>	12% to 25% (depending on market capitalisation)	-	✓	
Nasdaq (Global Select Market) <sup>46</sup>	-	1.25 million shares with a market value of US\$45 million	✓	✓
NYSE <sup>47</sup>	-	1.1 million shares with a market value of US\$40 million	✓	

*Note.* Please note that each stock exchange adopts its own definition of “public float” (sometimes referred to as “free float”) and these definitions may differ from that of the Exchange. For example, LSE and SGX exclude shareholders with 5% or more shareholding from the definition of “the public”, while the corresponding threshold for the Exchange is 10%.

76. Shanghai Stock Exchange and Shenzhen Stock Exchange do not prescribe a public float requirement at listing directly. Instead, they require issuers to ensure that the shares on offer represent 25% of the total number of its shares (or 10% if the share capital is over RMB 400 million)<sup>48</sup>.

<sup>43</sup> [ASX Listing Rule 1.1](#) (Condition 7).

<sup>44</sup> FCA Handbook UK Listing Rule [5.5.2R](#).

<sup>45</sup> SGX Mainboard Rule [210\(1\)\(a\)](#).

<sup>46</sup> Nasdaq Rules [5315\(e\)\(2\)](#) and [5315\(f\)\(2\)\(C\)](#).

<sup>47</sup> NYSE Listed Company Manual Section [102.01A](#).

<sup>48</sup> Rules for Listing of Shares on the Shanghai Stock Exchange, Article 3.1.1(3); and Rules for Listing of Shares on the Shenzhen Stock Exchange, Article 3.1.1(3).

### ***Uncertainty if the class of equity securities are not shares***

77. The Listing Rules do not clearly state whether the public float requirement applies to new classes of equity securities<sup>49</sup> that are not shares (for example, convertible equity securities, options and warrants)<sup>50</sup>.

### **Proposals**

78. We propose to replace the existing initial public float thresholds (see paragraph 69) with tiered initial public float thresholds (as set out in Table 5 below).

**Table 5: Proposed initial public float thresholds**

<b>Tier</b>	<b>Expected market value of the relevant class of securities at the time of listing</b>	<b>Minimum percentage of such class of securities to be held in public hands at the time of listing</b>
<b>A</b>	≤HK\$6 billion	25%
<b>B</b>	>HK\$6 billion to ≤HK\$30 billion	The higher of: (i) the percentage that would result in the expected market value of such securities in public hands to be HK\$1.5 billion at the time of listing; and (ii) 15%
<b>C</b>	>HK\$30 billion to ≤HK\$70 billion	The higher of: (i) the percentage that would result in the expected market value of such securities in public hands to be HK\$4.5 billion at the time of listing; and (ii) 10%
<b>D</b>	>HK\$70 billion	The higher of: (i) the percentage that would result in the expected market value of such securities in public hands to be HK\$7.0 billion at the time of listing; and (ii) 5%

*Note.* In the case of a PRC issuer with no other listed shares at the time of listing, the minimum percentage will be calculated as set out in paragraph 45. The expected market value of the relevant class of securities means the expected market value of all shares in the class to which H shares belong.

79. We propose that these initial public float thresholds apply to any class of equity securities new to listing on the Exchange (including shares, convertible equity securities, options, and warrants), except for:

<sup>49</sup> See the definition of “equity securities” in MB Rule 1.01 (GEM Rule 1.01).

<sup>50</sup> MB Rule 8.08(1) (GEM Rule 11.23(7)) requires an open market in the securities for which listing is sought, but the relevant public float percentage requirements are expressed as a percentage of the total number of issued shares.

- (a) the initial listing of A+H issuers (and other prescribed types of issuers), which would be subject to bespoke initial public float requirements (as set out in Section I.D.1 of Chapter 1); and
  - (b) a bonus issue of a new class of securities subject to satisfaction of certain conditions (as set out in Section II.A of Chapter 2).
80. The public float would be calculated based on the class of securities, as enlarged by any issue of securities, upon listing. Only securities that are already in issue at the time of listing on the Exchange (excluding treasury shares) will be counted for the purpose of this calculation. Accordingly, shares to be issued after listing (e.g. upon exercise of any over-allotment option or under any share scheme) will not be counted.
81. We propose to require that all issuers disclose, in their listing documents, the initial public float threshold that is applicable to the class of securities they seek to list on the Exchange.

### ***GEM issuers***

82. We propose to apply the same tiered initial public float thresholds (as set out in Table 5 above) to GEM issuers.

### ***Implementation subject to consultation on corresponding ongoing public float requirements***

83. The implementation date of the above proposals would be subject to the outcome of a further consultation on the ongoing public float requirements as set out in Section I.B.2 of this Chapter (see paragraph 117).

### **Rationale**

#### ***Providing listing applicants with greater regulatory certainty***

84. The proposal aims to provide greater certainty to listing applicants, particularly mega cap listing applicants, of the minimum public float that they will be required to meet at listing and reduce the need for new applicants to apply for a waiver.

#### ***The proposed tiered structure***

85. Our rationale for the thresholds in each of the four tiers is set out below:
- (a) ***Tier A:*** the percentage threshold of 25% is the same as the initial public float threshold currently prescribed. The HK\$6 billion market value threshold is to ensure that the proposed threshold will result in the same minimum public float value of HK\$1.5 billion<sup>51</sup> under the current requirement;

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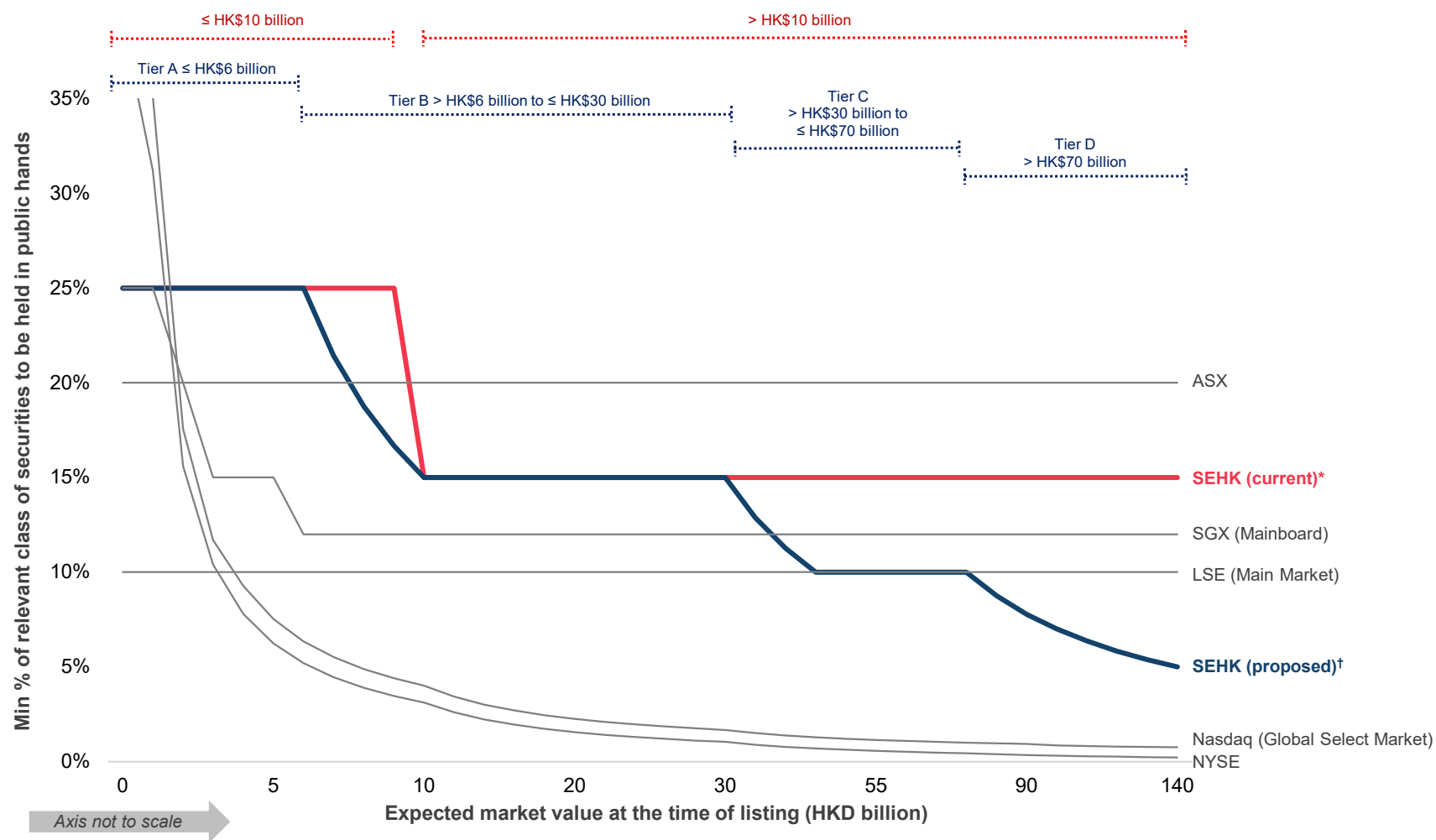
<sup>51</sup> Under MB Rule 8.08(1)(d) (GEM Rule 11.23(10)), the lowest acceptable minimum prescribed public float percentage for issuers with an expected market capitalisation at the time of listing of over HK\$10 billion is 15%. This corresponds to a market value of publicly held shares of over HK\$1.5 billion.

- (b) **Tier B:** both the percentage threshold of 15% and the dollar value threshold of HK\$1.5 billion correspond to the lowest acceptable initial public float threshold currently applicable to issuers with an expected market capitalisation at the time of listing of over HK\$10 billion (i.e. the current threshold for a public float waiver)<sup>52</sup>; and
- (c) **Tiers C and D:** the introduction of these tiers aim to help ensure that the Exchange remains an attractive listing venue for large cap and mega cap issuers. The percentage thresholds of 10% and 5% (for issuers whose class of shares to be listed have an expected initial market value exceeding HK\$30 billion and HK\$70 billion, respectively) would better align our public float requirement with those of other international stock exchanges (see Figure 1).

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<sup>52</sup> Ibid.

**Figure 1: Comparison of initial public float percentages on the Exchange and other international stock exchanges**



\* The Exchange may grant case-by-case waivers to allow public float percentages of below 15%.

† A+H issuers (and other prescribed types of issuers) are subject to bespoke initial public float requirements (as set out in Section I.D.1 of Chapter 1).

### ***Removing unfairness in marginal cases***

86. The proposed tiers are structured to remove unfairness in the application of initial public float requirement. We aim to achieve this by setting a “floor”, expressed as the market value of shares, for each of Tiers B, C and D. For example, the “floor” market value of shares in public hands for Tier B, HK\$1.5 billion, is set at the high end of the initial public float threshold for Tier A (i.e. 25% of HK\$6 billion). This ensures that the initial public float threshold applicable to an issuer in one of these tiers cannot be lower than that of its preceding tier.

### ***Scope of application***

87. The proposal clarifies the calculation of initial public float for a class of equity securities new to listing on the Exchange (including shares, convertible equity securities, options, and warrants) to address the issue identified above (see paragraph 77).
88. Please see Section I.D.1 below (paragraphs 171 and 172) for our rationale for the bespoke public float threshold for PRC issuers with shares listed on other regulated market(s), such as A+H issuers and issuers with multiple classes of shares listed overseas.

### **Impact of our proposals**

#### ***GEM issuers***

89. GEM listing applicants normally have a market capitalisation of below HK\$500 million at the time of listing<sup>53</sup>. This means that the class of shares GEM listing applicants seek to list on the Exchange will normally fall within Tier A under our proposal, and so will be subject to an initial public float threshold of 25% (which is the same as the current threshold). GEM listing applicants with market capitalisation falling within other tiers will be subject to the corresponding initial public float thresholds as proposed.

#### **Question 3**

- 3.1 Do you agree that we should replace the current minimum initial public float thresholds with tiered initial public float thresholds according to the expected market value of the class of securities for which listing is sought on the Exchange at the time of listing?

Please give reasons for your views and any alternative suggestions.

- 3.2 If your answer to question 3.1 is “yes”, do you agree with the proposed tiered initial public float thresholds (as set out in in Table 5 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>53</sup> This is because the minimum expected market capitalisation at the time of listing of a Main Board issuer is HK\$500 million pursuant to MB Rule 8.09(2).

3.3 If your answer to question 3.2 is “yes”, do you agree that the proposed tiered initial public float thresholds should be applied to any class of equity securities new to listing on the Exchange, except for (a) the initial listing of A+H issuers (and other prescribed types of issuers); and (b) a bonus issue of a new class of securities (as set out in paragraph 79 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

3.4 If your answer to question 3.1 is yes, do you agree that all issuers disclose, in their listing documents, the initial public float threshold that is applicable to the class of securities they seek to list on the Exchange?

Please give reasons for your views and any alternative suggestions.

3.5 If your answer to question 3.2 is yes, do you agree that the same tiered initial public float thresholds (as set out in Table 5 of the Consultation Paper) should be applied to GEM issuers?

Please give reasons for your views and any alternative suggestions.



## B.2 Ongoing Public Float Requirements

### Current requirements

#### *Ongoing thresholds*

90. The Listing Rules require that at least 25% of an issuer's total number of issued shares (excluding treasury shares) must at all times be held by the public<sup>54</sup>. This requirement is to help ensure that there is a sufficient number of shares available for trading so that an open market can exist in the shares listed on the Exchange. The Exchange may accept a lower ongoing public float percentage of 15% to 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10 billion<sup>55</sup>. Public floats below 15% may be accepted, on a case-by-case basis, if an applicant has a very large initial market capitalisation (far above HK\$10 billion).<sup>56</sup>

#### *Consequence of breach*

91. The Exchange may, at any time, direct a trading halt or suspend dealings in any securities or cancel the listing of any securities where the Exchange considers there are insufficient securities in the hands of the public<sup>57</sup>.
92. If the percentage of an issuer's securities in public hands falls below 25% (or the relevant minimum prescribed percentages as the case may be) (see paragraph 90):
- (a) *Restoration*: the issuer must take steps to restore the minimum percentage of securities in public hands at the earliest possible moment<sup>58</sup>;
  - (b) *Announcement*: the issuer must inform the Exchange immediately and publish an announcement that the number of listed securities which are in the hands of the public has fallen below 25% (or the relevant prescribed minimum percentage as the case may be)<sup>59</sup>; and
  - (c) *Trading suspension*<sup>60</sup>: the Exchange will normally require suspension of trading in an issuer's securities where the percentage of its public float falls below 15% (or

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<sup>54</sup> MB Rules 8.08(1)(a) and 13.32(1) (GEM Rules 11.23(7) and 17.36).

<sup>55</sup> MB Rule 8.08(1)(d) (GEM Rule 11.23(10)).

<sup>56</sup> During the period from 2020 to 2023, the Exchange granted public float waivers to 13 mega-cap listing applicants, allowing them to have a minimum public float percentage ranging from 5% to 13.7%. In certain circumstances, the Exchange may grant a waiver to allow a public float of below 5%. For example, in 2024, an A+H issuer was allowed to list with an H share public float percentage of 3.4%.

<sup>57</sup> MB Rule 6.01(2) (GEM Rule 9.04(2)).

<sup>58</sup> MB Rule 13.32(2) (GEM Rule 17.37). In the case of an issuer conducting an offer under the Takeovers Code, see also MB Rule 14.81 (GEM Rule 19.81).

<sup>59</sup> MB Rule 13.32(1) (GEM Rule 17.36).

<sup>60</sup> Pursuant to MB Rule 13.32(3) (GEM Rule 17.37), the Exchange reserves the right to require suspension of trading until appropriate steps have been taken to restore the minimum percentage of securities in public hands.

10% in the case of an issuer that has been granted a lower percentage of public float at the time of listing)<sup>61</sup>.

### Case statistics

93. Between January 2017 and September 2024, there were 161 cases where listed issuers failed to maintain a minimum public float, including: (a) 121 cases involving general offers, (b) 24 cases involving an inadvertent breach of the public float requirements<sup>62</sup>; and (c) 16 cases (involving 11 issuers) involving hostile acquisitions of shares by independent investors.
94. Of the 161 cases, the Exchange suspended trading in 43 cases<sup>63</sup>. Subsequently, 40 issuers were able to resume trading after restoring the required minimum public float. For the remaining cases, one issuer was subsequently delisted upon completion of privatisation, and two issuers were delisted after the 18-month long suspension limit set by the Listing Rules.
95. As of the date of this paper, two issuers had their trading suspended due to failure to maintain 15% public float, including one case involving a general offer and one case involving a share redemption by the existing shareholders of a SPAC.
96. During the period under review (see paragraph 93), the Exchange also exercised its discretion in two cases, to refrain from suspending trading in an issuer's shares even though the issuer's public float percentage was below the minimum<sup>64</sup>.

### **Offers under the Takeovers Code**

97. An issuer's public float may fall below the minimum percentage due to its own corporate actions or as a result of actions by its controlling or other significant shareholder(s). In offers regulated under the Takeovers Code, offerors are required to provide an undertaking to the Exchange that they will take appropriate steps to ensure that sufficient public float exists in the issuer's shares following the offer process<sup>65</sup>. The offer document

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<sup>61</sup> MB Rule 13.32(3) (GEM Rule 17.37).

<sup>62</sup> For example, connected persons inadvertently acquiring shares.

<sup>63</sup> Between 2017 and September 2024, the Exchange suspended trading in 43 cases, including 35 cases relating to general offers, seven cases involving hostile acquisitions and one case involving issuance of unlisted shares. The average suspension period was 4.9 months and the longest lasted 17.7 months. For hostile acquisition cases, the average time taken for resumption of trading was approximately 5.5 months. The shortest suspension lasted 0.3 months and the longest lasted 17.7 months (with an exceptional case where suspension lasted 30.3 months due to an extended resumption deadline).

<sup>64</sup> MB Rule 13.32(4)(a) (Note 6(a) to GEM Rule 11.23). The exemption applies if the issuer can demonstrate that the substantial shareholder is not its director and is independent of the issuer, its directors, and any of its other substantial shareholders. In general, the Exchange would expect this flexibility to apply to holdings by institutional investors with a wide spread of investments.

<sup>65</sup> MB Rule 14.81 (GEM Rule 19.81).

must also highlight the possibility that dealings in the issuer's shares may be suspended if there is a public float shortfall<sup>66</sup>.

### Case statistics

98. Between 2017 and September 2024, of the 121 cases of public float shortfall involving general offers, 35 cases resulted in a trading suspension.

### **Long suspension and delisting**

99. The Exchange may at any time suspend or cancel the listing of any securities to protect investors or maintain an orderly market<sup>67</sup>. The circumstances under which the Exchange may do so include, among other things, that an issuer fails to maintain sufficient public float (see paragraph 91).
100. Without prejudice to its power as stated above (in paragraph 99), the Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months (GEM: 12 months)<sup>68</sup>.
101. The Exchange received market feedback (to its consultation on GEM listing reforms in 2023) that HKEX should consider launching an over-the-counter ("OTC") trading platform serving issuers delisted from the Exchange<sup>69</sup>. We concluded, at the time, that such structural reform would be beyond the remit of our review of GEM<sup>70</sup>.

## **Issues**

### **Current requirements may unduly restrict transactions**

102. Currently, an issuer is restricted from carrying out transactions (e.g. share repurchases) that would cause its public float percentage to fall below 25% or the applicable prescribed minimum<sup>71</sup>. This is the case even if the issuer considers: (a) such transactions would be in the interests of the issuer and its shareholders as a whole; and (b) the market value of the shares held in public hands is high.

### **A shortfall in public float can arise purely from an acquisition of securities by a third party**

103. In some cases, a public float shortfall arose from an acquisition of securities by a person who was, or after the acquisition became, a substantial shareholder of the issuer (and

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<sup>66</sup> MB Rule 14.81(3) (GEM Rule 19.81(3))

<sup>67</sup> MB Rule 6.01 (GEM Rule 9.04).

<sup>68</sup> MB Rule 6.01A(1) (GEM Rule 9.14A(1)).

<sup>69</sup> HKEX (December 2023), [Consultation Conclusions on GEM Listing Reforms](#), paragraph 186.

<sup>70</sup> HKEX (December 2023), [Consultation Conclusions on GEM Listing Reforms](#), paragraph 203.

<sup>71</sup> An issuer is required to maintain the same minimum percentage of public float at listing (i.e. 25% save for those which have been granted a public float waiver at listing). This is the case even if its market capitalisation may have increased to above HK\$10 billion (the market capitalisation threshold for an initial public float waiver) after listing.

so was no longer a member of “the public” for the purpose of public float calculation). In some of these cases, it was alleged that the acquisition was made by a third party to gain leverage in negotiations with the issuer’s management.

104. As stated in paragraphs 93 to 94, between 2017 and September 2024, 16 cases of public float shortfall (involving 11 issuers) involved hostile acquisitions of shares by independent investors of which seven cases (involving four issuers) resulted in a trading suspension<sup>72</sup>.
105. The Listing Rules set out certain circumstances where the Exchange may refrain from suspending the stock where the public float shortfall arises from a third-party acquisition, which can be exercised on a case-by-case basis if it is satisfied that there remains an open market in the securities and if the conditions specified in the relevant rule are satisfied<sup>73</sup>. The case-by-case waiver approach results in regulatory uncertainty for issuers. Between 2017 and September 2024, the Exchange exercised such discretion in only two cases.

***Public float restoration can be practically difficult and costly***

106. It can be challenging for an issuer to restore its public float, within a short timeframe<sup>74</sup>, if it falls below the prescribed minimum threshold. Generally, the options available to restore are: (a) the issuance of new shares by the issuer to independent parties; and (b) the selling of shares by a core connected person of the issuer (e.g. substantial or controlling shareholders).
107. However:
  - (a) it may not be in the interests of the issuer and its shareholders, as a whole, to issue new shares when market conditions are poor and/or when the issuer has no imminent need for cash;
  - (b) the existing controlling shareholders and/or substantial shareholders may not be willing to sell their shares, particularly if market conditions are poor and they would need to sell the shares at a discounted valuation; and
  - (c) if trading in the issuer’s securities is suspended, any such transactions would be more difficult and costly, as they would need to be conducted off market and with no benchmark market price.

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<sup>72</sup> All of these stocks eventually resumed trading.

<sup>73</sup> MB Rule 13.32(4)(a) (Note 6(a) to GEM Rule 11.23). The exemption applies if the issuer can demonstrate that the substantial shareholder is not its director and is independent of the issuer; its directors; and any of its other substantial shareholders. In general, the Exchange would expect this flexibility to apply to holdings by institutional investors with a wide spread of investments

<sup>74</sup> Under current requirements, once the issuer becomes aware that the number of listed securities in the hands of the public has fallen below the relevant prescribed minimum percentage the issuer shall take steps to ensure compliance at the earliest possible moment (MB Rule 13.32(2) (GEM Rule 17.37)).

### ***Comparison with international requirements***

108. Some other international stock exchanges (including ASX, Nasdaq (Global Select Market), NYSE and SGX (Mainboard)) apply ongoing public float thresholds that are less stringent than those they require at initial listing (see Table 18 in Appendix IV). Only the LSE (Main Market) adopts the same approach as the Exchange to require issuers to maintain the same initial public float threshold on an ongoing basis. However, the threshold it applies is lower than that of the Exchange<sup>75</sup>.
109. The Shanghai Stock Exchange and Shenzhen Stock Exchange suspend trading in an issuer's shares if the percentage held by the public represents less than 25% of the issuer's total share capital (or 10% if the share capital is over RMB 400 million)<sup>76</sup>. These thresholds are the same as the minimum offer size requirements of these exchanges for issuers at the time of listing (see paragraph 76).

### ***Suspension of trading deprives shareholders of their ability to trade***

110. Suspension of trading due to breaches of the ongoing public float requirement (see paragraph 92(c)) deprives shareholders (including minority shareholders) of their ability to trade out of the position and can hinder an issuer's (or controlling shareholder's) ability to sell shares and restore the public float even if an open market still exists to trade them.
111. In past cases where the low public float was caused by disagreement between different groups of shareholders (see paragraph 103), those shareholder groups were often uncooperative with the issuer's plan to restore its public float. This could lead to difficulties in resolving the public float issue and prolonged suspension of trading, which would adversely affect minority shareholders.

### ***Long suspension and delisting***

112. There is no alternative trading platform available in Hong Kong for delisted securities. Accordingly, long suspension followed by cancellation of listing would normally mean a loss of exit opportunity for shareholders of the delisted issuer.
113. Stakeholders have previously suggested that we consider adopting the approach of other markets (such as the US) to allow the trading of delisted securities on an OTC platform (sometimes referred to as a "pink sheet" market). They considered that this would provide a platform for shareholders of a delisted company to trade out of their positions.
114. We note that an OTC market is typically characterised by the following features<sup>77</sup>:

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<sup>75</sup> The LSE's initial and ongoing public float thresholds are both 10%, which is lower than that of the Exchange's current suspension threshold (see paragraph 77) unless the issuer has been granted a waiver from the public float requirement for a lower prescribed percentage of public float at the time of listing.

<sup>76</sup> Rules for Listing of Shares on the Shanghai Stock Exchange, Articles 8.7 and 15.1(10); and Rules for Listing of Shares on the Shenzhen Stock Exchange, Articles 8.7 and 15.1(25).

<sup>77</sup> Reference is drawn to the US-based OTC Markets Group, one of the most liquid OTC markets globally.

- (a) **Target companies:** an OTC market may serve, among others, one or more of the following groups of target companies: (i) micro to small sized companies (which may not yet be at the stage of development to pursue a listing on a regulated exchange market); (ii) internationally listed issuers (whose primary listings are in other jurisdictions); and (iii) issuers delisted (either voluntarily or involuntarily) from a regulated exchange market.
- (b) **Investor eligibility:** trading of securities quoted on an OTC market may be conducted between broker-dealers (who are usually licensed market practitioners) only, or in some cases to allow eligible investors<sup>78</sup> to participate in trading; and
- (c) **Light-touch regulation:** an OTC market is often not a regulated exchange, and companies quoted on an OTC market are generally subject to less regulatory scrutiny and less stringent requirements, which mean fewer investor safeguards. They may be required to publish periodic financial statements but are otherwise subject to few continuing obligations.

## Proposals

### *Ongoing public float requirements*

115. If our proposed initial public float thresholds (see proposals in Section I.B.1 and Section I.D.1) are supported by the market, we seek views on the appropriate ongoing public float requirements for:
- (a) Issuers subject to the initial public float tiers proposed above (see Table 5 in Section 1.B.1); and
  - (b) A+H issuers (and other prescribed types of issuers) (see Section I.D.1) appropriate to the nature of their listings.
116. In view of the issues set out above (in paragraphs 102 to 111), we seek views on:
- (a) whether issuers should be allowed the flexibility to maintain a lower public float level, after listing, than that required at listing; and
  - (b) whether the existing regulatory approach of suspending trading of issuers with public float below a prescribed level (see paragraph 92(c)) should be maintained.
117. Subject to the feedback on our initial public float proposals (set out in Sections I.A.1, I.B.1 and I.D.1), we would seek market feedback on detailed ongoing public float proposals in a subsequent consultation. Changes to both initial and ongoing public float requirements would be implemented together, as one package, and only after that subsequent consultation had concluded.

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<sup>78</sup> These investors are often restricted to those who are deemed to be more experienced and sophisticated due to higher risks associated with securities quoted on an OTC market.

### ***Convertible securities or options, warrants or similar rights***

118. We propose to apply ongoing public float requirements to shares listed on the Exchange only, and not to convertible securities or options, warrants or similar rights, as:

- (a) the ongoing public float requirements apply to the underlying shares of these securities; and
- (b) the rights under these securities are normally subject to a fixed term by which they must be exercised or converted. These securities will also reduce in number over time as security holders exercise their rights to subscribe for, purchase, or convert those securities into the underlying equity securities, and such exercise is beyond the issuer's control. This means there would be practical difficulties for the issuer to maintain an "open market" in these securities.

### ***Potential OTC market***

119. We seek views on whether an OTC market should be established in Hong Kong. We also seek views on:

- (a) the potential benefits and risks of establishing an OTC market;
- (b) functions that an OTC market should serve; and
- (c) whether such OTC market should be open to retail investors.

#### **Question 4**

4.1 If our proposed initial public float thresholds (see proposals in Section I.B.1 and Section I.D.1 of Chapter 1 of the Consultation Paper) are supported by the market, we seek views on the appropriate ongoing public float requirements for:

- (a) Issuers, subject to the initial public float tiers proposed (see Table 5 in Section I.B.1 of Chapter 1 of the Consultation Paper); and
- (b) A+H issuers and other prescribed types of issuers (see Section I.D.1 of Chapter 1 of the Consultation Paper).

Please give reasons for your views and any alternative suggestions.

4.2 Should issuers be allowed the flexibility to maintain a lower public float level, after listing, than that required at listing, in view of the issues we have described in the Consultation Paper (see paragraphs 102 to 109 of the Consultation Paper)?

Please give reasons for your views.

4.3 Should the existing regulatory approach of suspending trading of issuers with public float below a prescribed level (see paragraph 92(c) of the Consultation Paper) be maintained, in view of the issues we have described in the Consultation Paper (see paragraphs 110 to 111 of the Consultation Paper)?

Please give reasons for your views.

4.4 Do you agree that ongoing public float requirements should be applied to shares only (as set out in paragraph 118 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

4.5 Do you agree that an OTC market should be established in Hong Kong (as set out in paragraph 119 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

4.6 What are your views on:

(a) the potential benefits and risks of establishing an OTC market;

(b) functions that an OTC market should serve; and

(c) whether such OTC market should be open to retail investors?

Please give reasons for your views.



## B.3 Ongoing Public Float Disclosure

### Current requirements

120. The Listing Rules currently require an issuer to include, in each of its annual reports, a statement of the sufficiency of its public float. This statement should be based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report<sup>79</sup>.
121. Issuers are only encouraged, as a recommended best practice in the Corporate Governance Code, to include the actual percentage of their public float in the corporate governance report they publish as part of their annual report. The actual public float disclosed must be based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report<sup>80</sup>.
122. The Listing Rules require the interim and annual reports of an issuer to disclose the interests of substantial shareholders and directors and chief executives in its shares<sup>81</sup>.

### Issues

#### *Lack of transparency*

123. Most issuers confirm only the sufficiency of their public float in their annual report without disclosing the actual number or percentage of shares in public hands. We have been informed by investors that knowledge of the size of an issuer's public float would better inform their investment decisions.
124. Investors may currently rely upon other public disclosure (e.g. filings made under Part XV of the SFO<sup>82</sup>) to understand an issuer's shareholding composition and hence shares not held by "the public". However, this can be a cumbersome exercise. In particular, it may not be possible to derive the exact amount of shareholding held by the core connected persons of an issuer (so are excluded from the definition of "the public") solely from filings made under Part XV of the SFO because:
  - (a) "substantial shareholders" under Part XV of the SFO means persons who are interested in 5% or more of any class of voting shares in a listed corporation, while

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<sup>79</sup> MB Rule 13.35 (GEM Rule 17.38A).

<sup>80</sup> Appendix C1 to the MB Rules, Recommended Best Practice F.1.2(c) (Appendix C1 to the GEM Rules, Recommended Best Practice F.1.2(c)).

<sup>81</sup> MB Rules Practice Note 5.

<sup>82</sup> Substantial shareholders, directors and chief executives are required to make filings under Part XV of the SFO on the acquisition or change in interests in shares of an issuer, which are required to be reported within three to ten business days of the relevant event. The Listing Rules also require the interim and annual reports of an issuer to disclose the interests of substantial shareholders and directors and chief executives in its shares (MB Rules Practice Note 5).

the shareholding threshold for a “substantial shareholder” under the Listing Rules (and so a core connected person) is 10%;

- (b) core connected persons under the Listing Rules include persons connected at a subsidiary level (i.e. director, chief executive and substantial shareholder of a subsidiary of the listed issuer, and their close associates), but such persons are not subject to a duty of disclosure under Part XV of the SFO; and
- (c) supervisors of a PRC issuer are considered a core connected person under the Listing Rules but are not expressly subject to a duty of disclosure under Part XV of the SFO, unless they fall within the meaning of a shadow director<sup>83</sup>.

### ***Comparison with international requirements***

125. Some international exchanges (including US stock exchanges and SGX) require issuers to disclose the market value or percentage of public float in their annual reports (see Table 19 in Appendix IV).

### **Proposal**

126. We propose to require listed issuers to disclose in their annual reports:

- (a) the percentage of the class of shares listed on the Exchange<sup>84</sup> (excluding treasury shares) that are held in the hands of the public as at the end of the relevant financial year; and
- (b) a statement, which may be in the form of a table, showing the composition of ownership of the relevant class of shares listed on the Exchange (excluding treasury shares) as at the end of the relevant financial year. The groups of shareholders that an issuer must identify in the relevant document, to the extent applicable, include:-
  - (i) shareholders who are not members of “the public”, comprising the following categories:
    - (1) substantial shareholders of the listed issuer and their close associates (identified on an individually named basis);
    - (2) directors, supervisor, chief executive of the listed issuer and their close associates (identified on an individually named basis); and

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<sup>83</sup> The term “shadow director” means a person in accordance with whose directions or instructions the directors of a corporation are accustomed or obliged to act. See SFC (3 July 2017), [Outline of Part XV of the SFO - Disclosure of Interests](#), paragraphs 3.1.3 and 4.7.4.5.

<sup>84</sup> For the purpose of this section, in the case of a PRC issuer, the reference to the “class of shares listed on the Exchange” will be modified to mean H shares.

- (3) any other persons excluded from the definition of “public”<sup>85</sup>; and
  - (ii) shareholders who are members of “the public”, comprising the following categories:
    - (1) any persons who fall within the definition of “the public” and have disclosed their interests pursuant to Part XV of the SFO (identified on an individually named basis);
    - (2) an independent trustee holding granted but unvested shares of a share scheme of the issuer on behalf of independent scheme participants (see our proposal in paragraph 65 in Section I.A.2 above); and
    - (3) other members of the “the public”.
127. Issuers would be required to disclose the above based on information that is publicly available to the issuer and within the knowledge of its directors in preparing the relevant document.
128. Consequently, the recommended best practice of including the percentage of public float in an issuer’s corporate governance reports (see paragraph 121) would be repealed.

### **Rationale**

129. Our proposals would increase transparency of the public float of listed issuers to investors and the broader market. This would:
- (a) remove the burden of calculating the percentage of public float based on publicly available information and in turn allow investors to make better informed investment decisions; and
  - (b) allow investors to better understand the composition of public float (e.g. to identify any concentration of shareholding in the hands of a small circle of related persons).
130. To ensure that the proposed additional disclosure obligation will not be unduly burdensome for issuers:
- (a) only persons connected at the issuer level would be required to be identified on an individually named basis (see paragraph 126(b)(i)(1) and (2)). This information is already required to be disclosed under Part XV of the SFO and so should be readily available to an issuer; and

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<sup>85</sup> These persons include: (a) a director, chief executive or substantial shareholder of any subsidiaries of the listed issuer or a close associate of any of them; and (b) other persons excluded from the definition of “public” e.g. any person who is accustomed to take instructions from a CCP (see sub-paragraphs (b), (c) and (d) of paragraph 61 (subject to the proposed modification referred to in paragraphs 64 and 65) in Section I.A.2 in Chapter 1).

(b) the disclosure would be required to be made based on information that is publicly available to the issuer and within the knowledge of its directors<sup>86</sup>.

131. We would not require an issuer to exhaust all possible means to ascertain the underlying shareholders (e.g. by conducting an investigation under section 329 of the SFO) for this purpose. However, at a minimum, we would expect an issuer to put in place necessary internal control procedures to ensure that core connected persons (and other persons who will not be considered “the public”) are aware of the requirement.

132. We would also require that the issuer take reasonable efforts to ascertain its actual public float for the purpose of such disclosure. For example, an issuer could require their core connected persons, and any other shareholders that it has identified not to be members of the “public”, to inform it of their initial shareholdings and any subsequent changes in their shareholdings.

133. Our proposal to require public float disclosure on an annual basis is in line with that in Singapore and the US (see paragraph 125 above).

#### **Question 5**

5.1 Do you agree with our proposal to mandate disclosure of actual public float in listed issuers’ annual reports?

Please give reasons for your views and any alternative suggestions.

5.2 If your answer to Question 5.1 is “yes”, do you agree with the details proposed to be disclosed (as set out in paragraph 126 of the Consultation Paper), including that only persons connected at the issuer level would be required to be identified on an individually named basis in the disclosure of shareholding composition (as set out in paragraph 126(b)(i)(1) and (2) of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

5.3 If your answer to Question 5.1 is “yes”, do you agree that issuers should be required to disclose the relevant information based on information that is publicly available to the issuer and within the knowledge of its directors (as set out in paragraph 127 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>86</sup> We acknowledge, for example, that the identities of holders of shares through CCASS are not visible to the issuer. We also acknowledge that shareholding information based on disclosure of interest made pursuant to Part XV of the SFO may be based on the latest notice filed by the relevant shareholder (which may not be the same date as at the end of the relevant financial year). Issuers can include appropriate remarks on the source of the information in their annual reports if necessary.

## C. Initial Free Float Requirement

### Current requirements

134. Upon an issuer's listing, some of its shareholders may be subject to restrictions on the disposal of the shares they hold. These restrictions include:
- (a) **lock-up restrictions imposed by the Exchange** on, for example, shares held by controlling shareholders of the issuer<sup>87</sup> and IPO shares placed to cornerstone investors in the IPO<sup>88</sup>;
  - (b) **lock-up restrictions under any other applicable laws and regulations to which the issuer is subject to**; and
  - (c) **contractual lock-up agreements** entered into between existing shareholders (e.g. pre-IPO investors) and the issuer and/or its underwriter(s) in the IPO<sup>89</sup>.
135. Although the Exchange currently imposes a public float requirement at listing, there is no requirement for issuers to ensure that some of their shares are free from such disposal restrictions. This means there is no assurance that there will be a minimum pool of shares, or "free float", that can be freely traded upon listing<sup>90</sup>.

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<sup>87</sup> Under MB Rule 10.07(1) (GEM Rule 13.16A(1)), controlling shareholders are subject to a lock-up period commencing on the listing document date and ending on the date which is 12 months from the listing date.

<sup>88</sup> According to the HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.15](#), paragraph 27(ii), the IPO securities placed to cornerstone investors are subject to a lock-up period of, generally, at least six months from the listing date.

<sup>89</sup> It is customary for pre-IPO investors to enter into voluntary contractual lock-up arrangements with the listing applicant and/or its underwriters.

<sup>90</sup> This is except for free float related requirements that are imposed on Biotech Companies (MB Rule 18A.07) and Specialist Technology Companies (MB Rule 18C.10), whereby:

- (a) in the case of a Biotech Company, the applicant must ensure that a portion of the total number of its issued shares with a market capitalisation of at least HK\$375 million are held by the public at the time of its initial listing. For this purpose, any shares allocated to a cornerstone investor and any shares subscribed by existing shareholders of the Biotech Company at the time of listing shall not be considered as held by the public; and
- (b) in the case of a Specialist Technology Company, the applicant must ensure that a portion of the total number of its issued shares listed on the Exchange with a market capitalisation of at least HK\$600 million are not subject to any disposal restrictions (whether under contract, the Listing Rules, applicable laws or otherwise) at the time of listing.

## Issues

### *Risk of no open market at listing*

136. Some issuers have been listed on the Exchange with sufficient public float (at least 25% of the issued share capital) but with low free float (below 5% of the issued share capital)<sup>91</sup>. This circumstance can arise, for example, if pre-IPO investors and cornerstone investors who are subject to disposal restrictions make up most of the public float.
137. Having a public float without a free float could mean that there may not be sufficient securities available for trading on the Exchange upon listing.

### *Comparison with international requirements*

138. Some international stock exchanges (e.g. ASX, LSE, Nasdaq and SGX) require that there must be sufficient free float in public hands at the time of listing<sup>92</sup>. For the exchanges that prescribe a percentage requirement, the initial free float thresholds range between 10% and 25% of the shares for which listing is sought<sup>93</sup> (see Table 18 in Appendix IV).

## Proposals

139. We propose to require all new applicants to ensure that a portion of the class of shares for which listing is sought on the Exchange be held by the public and not subject to any disposal restrictions at the time of listing (i.e. free float in public hands).

### *Thresholds*

140. We propose that a new applicant ensure that this free float in public hands either:
- (a) represents at least 10% of the number of shares in the relevant class for which listing is sought, with an expected market value of at least HK\$50 million; or
  - (b) has an expected market value of at least HK\$600 million at the time of listing.
141. We propose to only count shares that are already in issue at the time of listing on the Exchange (excluding treasury shares) for the purpose of calculating free float.

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<sup>91</sup> Between 2020 and 2023, 348 issuers were listed on the Main Board of the Exchange with public float of at least 25% (as a percentage of the total number of issued shares immediately upon listing). Of these, 46 (13.2%) had free float (in public hands) of less than 5% (as a percentage of the total number of issued shares immediately upon listing).

<sup>92</sup> See Table 18 in Appendix IV for requirements of ASX, LSE, Nasdaq and SGX.

<sup>93</sup> Except ASX where the percentage threshold applies to the main class of securities of the entity.

### PRC issuers

142. In the case of a new applicant that is a PRC issuer with no other listed shares, the above requirement will be modified so that H shares (for which listing is sought) held by the public and not subject to any disposal restrictions at the time of listing must either:
- (a) represent at least 10% of the total number of issued shares in the class to which H shares belong, with an expected market value of at least HK\$50 million; or
  - (b) have an expected market value of at least HK\$600 million at the time of listing.
143. In the case of a new applicant that is a PRC issuer with other listed shares, such as an A+H issuer, we propose to require that H shares held by the public and not subject to any disposal restrictions represent at least 10% of total number of H shares for the purpose of the calculation of the free float percentage (referred to in paragraph 140(a)).

### ***Scope of application***

144. We propose to apply the proposed free float requirement to shares only and not to convertible securities or options, warrants or similar rights to subscribe for or purchase shares or convertible securities.

### ***Shares in a share scheme***

145. We propose that shares considered to be in public hands that are held by an independent trustee under a share scheme (see proposal in paragraph 65) not be counted towards the proposed initial free float requirement.

### ***Biotech Companies and Specialist Technology Companies***

146. We propose to replace the existing free float related requirements for Biotech Companies and Specialist Technology Companies<sup>94</sup> with the above proposals.

### **Rationale**

147. Our proposed initial free float requirement aims to ensure that there will be a sufficient number of shares, held by the public, that are available for trading upon listing.

### ***Thresholds***

148. Our proposed thresholds are based on the following rationale:
- (a) with respect to limb (a):
    - (i) the percentage threshold of 10% is comparable to that prescribed by other international stock exchanges (see paragraph 138 above); and

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<sup>94</sup> MB Rules 18A.07 and 18C.10.

- (ii) the dollar value threshold of HK\$50 million (GEM: HK\$15 million) is 10% of the minimum market capitalisation required for an initial listing<sup>95</sup> and is proposed to ensure the same free float “floor” for all types of applicants; and
- (b) with respect to limb (b), the dollar value threshold of HK\$600 million is consistent with the current free float threshold for Specialist Technology Companies<sup>96</sup>, and should be sufficient (in market value) even if the free float as a percentage (of the relevant class for which listing is sought) is less than 10%.

### PRC Issuers

- 149. In the case of a PRC issuer with no other listed shares, we propose that the free float of 10% be calculated based on H shares held by the public that are not subject to any disposal restrictions, as a percentage of total number of shares in the same class to which H shares belong.
- 150. In the case of a PRC issuer with other listed shares, such as an A+H issuer, we propose that free float of 10% be calculated based on H shares held by the public that are not subject to any disposal restrictions, as a percentage of its total number of H shares only. This is because we recognise that a 10% initial free float requirement, based on the total number of shares in the class to which H shares belong<sup>97</sup>, may create too high a bar and inhibit such issuers from seeking listings in Hong Kong.

### **Scope of application**

- 151. We propose to apply our proposed initial free float requirements to shares listed on the Exchange and not to convertible securities or options, warrants or similar rights to subscribe for or purchase shares or convertible securities. This is because these securities are normally newly issued at listing and are not subject to any disposal restrictions.

### **Shares in a share scheme**

- 152. Shares that have been granted but not yet vested under share schemes, and are held by an independent trustee on behalf of independent scheme participants, would be regarded as being held in the hands of the public (see paragraph 65 in Section I.A.2). However, these shares are not available for trading before vesting, and so we propose that they should not be counted towards the issuer’s free float.

### **Biotech Companies and Specialist Technology Companies**

- 153. We propose to apply the same requirement to all issuers, including Biotech Companies and Specialist Technology Companies, to ensure consistency and avoid over-complicating our requirements.

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<sup>95</sup> Main Board: HK\$500 million (MB Rule 8.09(2)); GEM: HK\$150 million (GEM Rule 11.23(6)).

<sup>96</sup> MB Rule 18C.10.

<sup>97</sup> The basis for calculation of public float percentage for these issuers (see paragraph 45).



## Impact of our proposal

154. Approximately 70% of issuers that were primary listed on the Main Board of the Exchange between 2020 and 2023 (inclusive) would have been able to meet our proposed free float requirement.
155. An illustration of our proposed free float requirement for selected types of issuers is set out in Table 20 (in Appendix V to this paper).

### Question 6

- 6.1 Do you agree that the Exchange should require a minimum free float in public hands at the time of listing for all new applicants (as set out in paragraph 139 of the Consultation Paper)?

Please give reasons for your views.

- 6.2 If your answer to Question 6.1 is “yes”, do you agree with our proposed initial free float thresholds (as set out in paragraph 140 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 6.3 If your answer to Question 6.1 is “yes”, do you agree with our proposed modification of the initial free float thresholds to PRC issuers (as set out in paragraphs 142 to 143 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 6.4 If your answer to Question 6.1 is “yes”, do you agree with our proposal to apply the proposed initial free float requirement to shares only (as set out in paragraph 144 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 6.5 If your answer to Question 6.1 is “yes”, do you agree that shares considered to be in public hands that are held by an independent trustee under a share scheme should not be counted towards the proposed initial free float requirement (as set out in paragraph 145 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 6.6 If your answer to Question 6.1 is “yes”, do you agree that existing free float related requirements for Biotech Companies and Specialist Technology Companies should be replaced with the proposed initial free float requirement so that the same requirement applies to all issuers (as set out in paragraph 146 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

## D. Requirements for A+H Issuers and Other Prescribed Types of Issuers

### D.1 Initial Minimum Percentage and Market Value of Listed Shares

#### Current requirements

156. The Listing Rules state that, where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares<sup>98</sup> (excluding treasury shares)<sup>99</sup>. This requirement is referred to as the "Minimum 15% Threshold" in this paper. These shares must also have an expected market value, at the time of listing, of not less than HK\$125 million (GEM: HK\$45 million)<sup>100</sup>.
157. The purpose of these requirements is to ensure that a sizeable proportion of securities will be listed on the Exchange, to attract a "critical mass" of investor interest. In practice, these requirements are most relevant to PRC issuers that have listed A shares on a PRC stock exchange, at the time of its listing of H shares in Hong Kong (referred to as "A+H issuers" in this paper).

#### Issues

##### *Requirement may be too high and so inhibitive for issuers*

158. Stakeholders commented that the Minimum 15% Threshold is too high for issuers with very large total market capitalisations, particularly A+H issuers, and so may inhibit their wish to list in Hong Kong. This is because an A+H issuer normally needs to rely on the H share offering to satisfy this requirement<sup>101</sup>. An offer that represents 15% of their total number of shares in issue can be very large in absolute dollar value. These issuers may have no immediate need to raise such a large amount of funds and a smaller offer size may better suit their commercial requirements.
159. Between 2020 and 2023, ten A share issuers conducted IPOs of H shares or sought for listing by way of introduction on the Main Board of the Exchange. Four of these ten A+H issuers were granted waivers from the Minimum 15% Threshold and permitted to offer H shares that represented 5% to 12.5% of their total number of issued shares. Two of these ten A+H issuers were listed by way of introduction and complied with the Minimum 15% Threshold.

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<sup>98</sup> These securities should also be held by the public.

<sup>99</sup> MB Rule 8.08(1)(b) (GEM Rule 11.23(9)). In the case of a PRC issuer, this requirement is modified such that where a PRC issuer has shares apart from the H shares for which listing is sought, the issuer's H shares (for which listing is sought) must represent at least 15% of its total number of issued shares (excluding treasury shares). See MB Rule 19A.13A (GEM Rule 25.07A).

<sup>100</sup> Ibid.

<sup>101</sup> For A+H issuers, the public float requirement is typically met by the newly issued H shares there is no mechanism to convert A shares into H shares.

160. Of the remaining four A+H issuers that complied with the Minimum 15% Threshold (i.e. instead of a lower percentage pursuant to a waiver)<sup>102</sup>:

- (a) the size of their H share offers only just met, or were only slightly above<sup>103</sup>, 15% of the total number of shares in issue; and
- (b) the average offer size of these A+H issuers was much higher than offers by issuers of similar market capitalisations<sup>104</sup> that were not A+H issuers. Table 6 below (in the last row) shows that their average offer size was HK\$3.97 billion, compared to the average offer size of HK\$2.24 billion made by primary listings of non-PRC issuers, and the average offer size of HK\$1.49 billion by PRC issuers with no other listed shares.

**Table 6: Offer size statistics of IPOs conducted by issuers (with a market capitalisation at the time of listing of between HK\$7 billion and HK\$41 billion) on the Main Board of the Exchange between 2020 and 2023**

Type of listing	Average offer size of IPOs conducted on the Main Board of the Exchange (2020 to 2023)
Primary listings of non-PRC issuers (excluding dual primary listings <sup>105</sup> )	HK\$2.24 billion
H share listings of PRC issuers with no other listed shares	HK\$1.49 billion
H share listings of A+H issuers (which are subject to the Minimum 15% Threshold)	HK\$3.97 billion

***Lack of comparable international requirements***

161. Other international stock exchanges<sup>106</sup> do not require issuers with multiple classes of shares to ensure that the class of shares to be listed represents a minimum percentage of the total number of issued shares.

**Proposals**

***Minimum relative amounts of shares made available for trading in Hong Kong***

<sup>102</sup> Four A+H issuers, with a market capitalisation upon listing ranging from HK\$7.1 billion to HK\$40.9 billion (determined based on the offer price of H shares and the enlarged issued share capital).

<sup>103</sup> Within one % point above the Minimum 15% Threshold.

<sup>104</sup> Those with a market capitalisation at the time of listing of between HK\$7 billion and HK\$41 billion, which is similar to the market capitalisation at the time of listing of the four A+H issuers referred to in footnote 102.

<sup>105</sup> Dual primary listings are excluded from this analysis as their offer sizes may be affected by other factors.

<sup>106</sup> ASX, LSE, Nasdaq, NYSE and SGX.

162. We propose to lower the Minimum 15% Threshold by replacing it with the requirement that:

(a) in the case of a new applicant that is a PRC issuer with other listed shares, such as an A+H issuer, H shares for which listing is sought on the Exchange must, at the time of listing, either:

(i) represent at least 10% of the total number of shares in the class to which H shares belong (excluding treasury shares); or

(ii) have an expected market value of at least HK\$3 billion; and

(b) in the case of a new applicant that is an issuer with other share class(es) listed overseas, the class of shares for which listing is sought on the Exchange must, at the time of listing, either:

(i) represent at least 10% of the total number of issued shares (excluding treasury shares); or

(ii) have an expected market value of at least HK\$3 billion.

163. Only shares in issue at the time of listing (excluding treasury shares) would be counted.

#### ***Public float***

164. We propose that the minimum initial public float thresholds for A+H issuers (and other prescribed types of issuers) be the same as the thresholds set out above (in paragraph 162). This means that the shares (H shares or shares of the class for which listing is sought (as applicable)) counted towards the thresholds (in paragraph 162) must be held in public hands.

#### ***Minimum market value***

165. As set out above (see paragraph 47 in Section I.A.1), we propose to clarify and rely on the HK\$125 million (GEM: HK\$45 million) market value requirement for securities held in public hands<sup>107</sup> to set the minimum market value of a class of shares for which listing is sought on the Exchange.

166. Consequently, we propose to remove the HK\$125 million (GEM: HK\$45 million) minimum market value requirement for the class sought to be listed by issuers with other share class(es) listed overseas and H shares of PRC issuers<sup>108</sup> (see paragraph 156).

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<sup>107</sup> MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

<sup>108</sup> MB Rule 8.08(1)(b) (GEM Rule 11.23(9)).

***Implementation subject to consultation on corresponding ongoing public float requirements***

167. The implementation date of the above proposals would be subject to the outcome of a further consultation on the ongoing public float requirements as set out in Section I.B.2 of this Chapter (see paragraph 117).

**Rationale**

168. Our proposal aims to address the issues identified above (see paragraphs 158 to 161), whilst ensuring that the minimum threshold still represents a meaningful amount to attract a “critical mass” of investor interest in such issuers’ securities in Hong Kong.
169. The proposal will also provide regulatory certainty to mega cap A+H issuers (and other prescribed types of issuers) of the minimum market value of shares that they will be required to list on the Exchange, instead of relying on case-by-case waivers.
170. Our proposed thresholds are based on the following rationale:
- (a) the percentage threshold of 10% takes into account stakeholders’ feedback that the current Minimum 15% Threshold is too high and so inhibits potential listings in Hong Kong; and
  - (b) the alternative market value threshold of HK\$3 billion would better suit the commercial capital raising needs of mega cap issuers while ensuring a sufficiently large amount of shares, by value, is available to attract a “critical mass” of investment in their securities in Hong Kong. The HK\$3 billion threshold is determined by reference to the median (H share) offer size of HK\$3.3 billion by PRC issuers on the Main Board of the Exchange between 2017 and 2023.

***Public float***

171. A shares listed on a PRC exchange are not fungible with H shares listed in Hong Kong. Therefore, A shares do not contribute towards an open market in trading on the Exchange. To ensure that the H shares listed in Hong Kong by PRC issuers with other listed shares, such as A+H issuers, are sufficient to ensure an open market, we propose that the minimum initial public float thresholds for such issuers be the same as the thresholds set out above (in paragraph 162).
172. To ensure equal treatment, we propose to apply the same public float requirement to all issuers that are required to make a minimum relative amount of their shares available for trading in Hong Kong. This means issuers with other share class(es) listed overseas would also be subject to this public float requirement.

***Minimum market value for new applicants***

173. We propose to remove the minimum market value requirements for shares for which

listing is sought (see paragraph 165)<sup>109</sup>, as they will no longer be meaningful following our clarification on the HK\$125 million (GEM: HK\$45 million) market value requirement for securities held in public hands<sup>110</sup>.

### **Impact of our proposal**

174. Our proposal may result in H share offers by A+H issuers that are smaller in size than previous offers. However, it may also attract more PRC issuers with other listed shares, such as A+H issuers, who would otherwise not have chosen to list in Hong Kong.
175. On balance, we believe that our proposal would make Hong Kong a more attractive listing venue, which is also in line with the Hong Kong Government's initiative to encourage large scale Mainland enterprises to list in Hong Kong<sup>111</sup>.

#### **Question 7**

- 7.1 Do you agree with our proposed revised minimum thresholds on shares to be listed on the Exchange for A+H issuers and other prescribed types of issuers (as set out in paragraph 162 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 7.2 Do you agree that the minimum initial public float thresholds for A+H issuers and other prescribed types of issuers should be the same as the minimum thresholds on shares to be listed on the Exchange (as set out in paragraph 164 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

- 7.3 Do you agree with our proposal to remove the minimum market value requirement for the class sought to be listed by issuers with other share class(es) listed overseas and H shares of PRC issuers (as set out in paragraph 166 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

<sup>109</sup> HK\$125 million (GEM: HK\$45 million) market value requirement of MB Rule 8.08(1)(b) (GEM Rule 11.23(9)) (see paragraph 156).

<sup>110</sup> MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

<sup>111</sup> Paragraph 40(ii) of the Chief Executive's 2024 Policy Address.

## D.2 Ongoing Minimum Percentage and Market Value of Listed Shares

### Current requirement

176. The Minimum 15% Threshold for PRC issuers (and issuers with other share class(es) listed overseas) only apply at the time of listing (see paragraph 156).
177. In 2023, as part of market consultation on Rule amendments relating to PRC issuers<sup>112</sup>, the Exchange consulted the market on<sup>113</sup>:
- (a) whether they have a concern regarding a potential reduction in size and liquidity of the H share market, relative to the A share market, if PRC issuers choose to issue new shares in the form of A shares only after listing; and
  - (b) whether there should be other provisions to promote the long-term development of the H share market and liquidity of the H share market relative to the A share market if PRC issuers choose to issue new shares in the form of A shares only after listing.
178. The Exchange concluded that it would consider market comments and suggestions on the imposition of an ongoing H share public float requirement in its review of the public float requirements<sup>114</sup>.

### Issues

179. We received diverging views from respondents to this market consultation. In particular:
- (a) 55% of respondents indicated that they had no concern about the potential reduction in the relative size and liquidity of the H share market if PRC issuers issued new shares primarily in the form of A shares. A number of respondents thought that the issuance of A shares or H shares is primarily a market driven commercial decision and PRC issuers should have the flexibility to decide how to use their general mandates or scheme mandates between A shares and H shares<sup>115</sup>.
  - (b) 45% of respondents expressed concerns about the potential reduction in the size and liquidity of the H share market relative to the A share market. Since A shares

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<sup>112</sup> HKEX (February 2023), [Consultation Paper on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#); and HKEX (July 2023), [Consultation Conclusions on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#).

<sup>113</sup> HKEX (July 2023), [Consultation Conclusions on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#), paragraph 48.

<sup>114</sup> HKEX (July 2023), [Consultation Conclusions on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#), paragraph 65.

<sup>115</sup> HKEX (July 2023), [Consultation Conclusions on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#), paragraph 54.

generally trade at a premium to H shares of PRC issuers, they thought secondary fundraisings may gravitate towards the A share market. This could lead to H shareholders becoming an even smaller minority among the shareholders of PRC issuers and the H share market becoming relatively inactive. They believed that this may consequently undermine the relative liquidity and attractiveness of the H share market over time<sup>116</sup>.

For these reasons, a number of respondents suggested that the Exchange consider imposing an ongoing public float requirement for H shares of PRC issuers after listing<sup>117</sup>.

## **Proposal**

180. We do not intend to impose any ongoing requirement in respect of the number of H shares a PRC issuer must maintain on the Exchange. We also do not intend to impose any ongoing requirement in respect of the number of shares an issuer with other share class(es) listed overseas must maintain as a percentage of its total issued shares. These issuers would be required to ensure only that there were sufficient shares available for trading in Hong Kong to provide a “critical mass” of trading here at listing.

## **Rationale**

181. We believe that PRC issuers should have the flexibility to decide the proportion of H shares as a percentage of its issued share capital that is optimal to their commercial goals. Imposing an ongoing minimum H shares requirement may be too restrictive as such requirements may restrict their ability to conduct fundraisings on a PRC stock exchange (i.e. secondary offering in the case of A+H Issuers, and new listing in the case of PRC issuers that are not listed on any PRC stock exchange), as they may, for example, need to conduct a concurrent follow-on H share offering to meet the requirement, even when there is no commercial need to do so.

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<sup>116</sup> HKEX (July 2023), [Consultation Conclusions on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#), paragraph 57.

<sup>117</sup> HKEX (July 2023), [Consultation Conclusions on Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers](#), paragraph 58.



## II. IPO Offering Mechanism

### Background

#### Overview of the mechanism in Hong Kong

##### *Offering mechanism*

182. Securities in an IPO on the Exchange are usually offered in tranches as set out in Table 7 below.

**Table 7: Offering mechanism of a typical IPO**

Tranche	Description
<b>Placing Tranche</b>	
Cornerstone placing tranche <sup>118</sup>	Shares placed with “cornerstone investors” (chosen by the new applicant) who commit to participate in the IPO at the final offer price (yet to be determined), for a pre-agreed total investment amount <sup>119</sup> , and have their identity information disclosed in the prospectus. They receive guaranteed allocation of shares in return for their commitment to the IPO.
Bookbuilding placing tranche <sup>120</sup>	Shares placed with investors following a “bookbuilding” process <sup>121</sup> , during which they place orders (including expressions of interests) as to the number of shares they wish to subscribe for and the price at which they are willing to pay for them, with no commitment to doing so until the final offer price is determined.

<sup>118</sup> For the avoidance of doubt, the cornerstone placing tranche involves bookbuilding and placing activities as prescribed under paragraph 21.1.1 of the SFC Code of Conduct and is therefore governed by paragraph 21 of the SFC Code of Conduct. (see paragraph 217).

<sup>119</sup> The number of offer shares to be subscribed by a cornerstone investor is subject to the determination of the final offer price (i.e. by dividing the investment amount committed by that cornerstone investor with the final offer price). Accordingly, more offer shares will be allocated to the cornerstone investors if the price is set at the low-end of the indicative offer price range, and vice versa.

<sup>120</sup> For the avoidance of doubt, the bookbuilding placing tranche involves bookbuilding and placing activities as prescribed under paragraph 21.1.1 of the SFC Code of Conduct and is therefore governed by paragraph 21 of the SFC Code of Conduct. (see paragraph 217).

<sup>121</sup> The period typically overlaps the offering period of the public subscription tranche, i.e. after the publication of prospectus.

Tranche	Description
<b>Public Subscription Tranche</b>	Shares allocated to any investors (not chosen by the issuer) who have applied for them in the offer period. Allocation is normally in proportion to the number of shares applied for <sup>122</sup> . By submitting an application, the investors commit to pay at the (yet to be determined) final offer price.

### ***IPO pricing mechanism***

183. In a typical IPO on the Exchange, an indicative price range would be included in the issuer's prospectus. This is determined based on the feedback to syndicate members' research reports, "test-the-waters" meetings held with potential investors and demand from cornerstone investors (see paragraph 187).
184. The final offer price is fixed by agreement between the overall coordinator(s) and the issuer after actual market demand for the offer shares under the placing tranche (through bookbuilding) and the public subscription tranche is determined.

### **The placing tranche**

#### ***Cornerstone placing tranche***

#### **Features**

185. It is not uncommon, in Hong Kong, for a portion of the IPO placing tranche to be allocated to cornerstone investors. Their participation signals to potential investors that the cornerstone investor has confidence in the IPO, as they are willing:
- (a) to commit to take up shares prior to the publication of the prospectus, when the final IPO price is not known;
  - (b) to have details of their investment disclosed in the prospectus; and
  - (c) to have the shares they have subscribed for, under the cornerstone placing tranche, "locked-up" for a six-month period, during which they cannot sell them (see paragraph 189(d) below).
186. The ability to place offer shares to cornerstone investors is regarded, by market practitioners, as an important tool to increase deal certainty, especially during times of market uncertainty and volatility.

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<sup>122</sup> In cases where the total number of shares applied for significantly exceeds the shares available, a ballot will be used to allocate shares to investors. Different allocation ratios may also apply for applications with a total subscription amount of HK\$5 million or below (Pool A) and those above (Pool B). See MB Rules Practice Note 18, paragraph 3.1 (GEM Rules Practice Note 6, paragraph 3).

### Influence on price discovery

187. The highest valuation acceptable to all cornerstone investors would usually set the highest price in the indicative offer price range stated in the issuer's prospectus. This is because these investors are committed to purchasing the offer shares at this price, if it becomes the final offer price. In this way, cornerstone investors have some "price setting" influence.
188. Cornerstone investors can vary in their nature. They may be independent institutional investors who choose to participate as cornerstone investors to ensure they receive a meaningful allocation of shares in an IPO. Alternatively, they may be strategic investors whose objectives (in addition to realising gains from their investment) include non-financial reasons for supporting the listing applicant's listing. During the price negotiation process with the issuer for the cornerstone placing tranche, the latter type of investor is likely to be more accommodating to the valuation proposed by the issuer than independent institutional investors.

### Regulatory requirements

189. The Exchange imposes additional requirements on cornerstone investors as they receive a guaranteed allocation of the IPO shares (i.e. referred to as a "preferential" placing of IPO shares). The Exchange's requirements state that such preferential placings will not violate the fair and equal treatment requirement under the Listing Rules<sup>123</sup> if certain principles are followed, including that<sup>124</sup>:
- (a) the placing is at the IPO price and the cornerstone investors pay in full for their securities before dealings in the applicant's securities on the Exchange commence;
  - (b) each cornerstone investor will not have any board representation in the applicant, and must be independent of the applicant, its connected persons and their respective associates;
  - (c) details of the placing arrangement, including the identity and background of the investors, must be disclosed in the prospectus;
  - (d) the IPO securities placed to the cornerstone investor are subject to a lock-up period of at least six months from the listing date, during which time the cornerstone investor cannot sell them; and
  - (e) no direct or indirect benefits, by side agreement or otherwise, are given to a cornerstone investor (other than the guaranteed allocation of the relevant offer shares at the final IPO price).

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<sup>123</sup> MB Rule 2.03 (GEM Rule 2.06).

<sup>124</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.15](#), paragraphs 27 to 31.

## ***Bookbuilding placing tranche***

### **Features**

190. The bookbuilding process aims to determine demand, price and share allocation. Its features are summarised as follows:
- (a) *Matching price with demand:* Investors express their interest in shares based on the indicative offer price range published in the prospectus. After this period, the final offer price and allocation are determined based on indicated demand taking into account various factors<sup>125</sup>. The bookbuilding process, in theory, reduces the likelihood of the final offer price being fixed at a large disparity to the actual trading price (when dealings in those shares commence), leading to better long-term price discovery and demand matching.
  - (b) *Fostering investor competition:* Bookbuilding creates price tension among investors who vie for the best allocation at the cheapest price. Such competition enhances price discovery.
  - (c) *Access to overseas demand:* The bookbuilding process is widely recognised and used in other jurisdictions (e.g. the US and the UK), and so helps attract funds from overseas investors who are familiar with the pricing mechanism.
  - (d) *Investor transparency:* As investors must indicate demand for shares, the overall coordinator(s) becomes aware of their identity and so make allocation recommendations to the issuer that best match the objective of both achieving a successful IPO and building a robust long-term shareholder base for the issuer. This process relies on the overall coordinator's expertise and collaboration with the issuer to achieve the desired shareholder profile.

### **Influence on price discovery**

191. As bookbuilding placees indicate the price they are willing to pay and the amount of shares they are willing to subscribe for, to facilitate the determination of the final offer price(see paragraph 190), they are key "price setters" in an IPO.
192. Bookbuilding placees vary in their nature and profile and include investors with both long term and short-term investment goals.

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<sup>125</sup> The listing documents will typically disclose that allocation will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell offer shares after the listing.

## **The public subscription tranche**

### ***Features***

193. Public subscription tranche participants apply for IPO shares based on the offer price range in the prospectus. However, they must purchase the shares allocated to them at the final offer price, even if that price is at the top of the offer price range.

### ***Influence on price discovery***

194. As public subscription tranche investors do not have negotiation power in the pricing process, they are “price takers” in an IPO.
195. The profiles and investment goals of investors in the public subscription tranche is not known to the issuer or lead manager(s) of the IPO and so they will not know how long public subscription tranche investors are likely to hold their shares after listing. A large allocation to the public subscription tranche may therefore increase the risk of high price volatility if, soon after listing, a large number of public subscription tranche investors sell their IPO shares.
196. A trigger of the clawback mechanism (see paragraph 197 below) will result in some of the shares available for allocation to the bookbuilding placing tranche being switched to the public subscription tranche. In this circumstance, the issuer may be able to set a high final IPO price that would not have been acceptable to sufficient investors in the bookbuilding placing tranche at its original size. This results in a greater risk of poor share price performance after listing.

### ***Regulatory requirements***

#### **Clawback mechanism**

197. If demand from investors under the public subscription tranche is strong (known as “oversubscription”) and offer shares under the placing tranche are not undersubscribed, the Listing Rules require more shares to be allocated to the public subscription tranche, based on the level of oversubscription. The Listing Rules allow an increase in the minimum allocation to the public subscription tranche of up to 50% of the total offer shares. This is known as the “clawback mechanism” (see Box 2 for the history of this mechanism and Section II.C below for a summary of the current requirements).

### **Box 2: History of the clawback mechanism**

Until 1993, the majority of new listings in Hong Kong were conducted through fixed price offers by subscription. Shares were offered at a price pre-determined by the issuers and the underwriters, and investors were required to pay in full for the total number of shares applied for by submitting, with their application forms, personal cheques or bankers' drafts<sup>126</sup>.

<sup>126</sup> SFC (June 1997), [Consultation Paper on Offering Mechanisms](#), paragraphs 1 and 2.

Beginning with the listing of the first batch of H shares issuers on the SEHK in July 1993, global equity offerings involving the raising of funds from both the Hong Kong market and the international markets became more common. Accordingly, new listings in Hong Kong started to adopt a combined offering mechanism, comprising a public subscription tranche and an international placing tranche.

In the 1990s, retail investors contributed to a relatively high proportion of cash market activity on the Exchange<sup>127</sup>. Therefore, the Exchange decided there was a regulatory need to ensure a sufficient supply of securities in the public subscription tranche of Hong Kong IPOs to satisfy local investment demand.

In 1998<sup>128</sup>, a minimum size requirement for the public subscription tranche was codified in the Listing Rules<sup>129</sup> to require a minimum percentage of an offer to be allocated to the public subscription tranche. This was implemented together with a clawback mechanism that increased the size of the public subscription tranche when the demand for shares in that tranche is high. The same clawback mechanism is in effect today.

### Allocation Cap

198. If the placing tranche is undersubscribed but the public subscription tranche is oversubscribed, an issuer may decide to allocate more offer shares to the public subscription tranche. This may result in a higher allocation to the public subscription tranche than the initial allocation contemplated in the prospectus, even if the clawback mechanism is not triggered.
199. The Allocation Cap<sup>130</sup> was introduced to protect public subscription tranche investors (see Box 3 for the history and Section II.D below for details). It limits the maximum number of shares that can be allocated to the public subscription tranche, when:
- (a) the placing tranche is undersubscribed; or
  - (b) the placing tranche is fully subscribed or oversubscribed and the clawback mechanism has not been triggered.
200. In addition, when the Allocation Cap applies, the offer price must also be fixed at the lower of: (a) indicative offer price or bottom of the offer price range; and (b) the downward adjusted final offer price under the pricing flexibility mechanism<sup>131</sup>.

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<sup>127</sup> According to [HKEX's Members Transaction Survey 1997](#), retail investors represented 53% of cash market trading value.

<sup>128</sup> SFC (February 1998), [Offer Mechanisms Consultation Conclusion](#).

<sup>129</sup> MB Rules Practice Note 18, paragraph 4.2 (GEM Rules Practice Note 6, paragraph 4).

<sup>130</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraphs 8 and 9.

<sup>131</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraph 9.

### **Box 3: History of the Allocation Cap**

In 2018, the Exchange introduced the Allocation Cap as it was noted that, in some IPOs, a substantial number of offer shares were reallocated from the placing tranche to the public subscription tranche, even though the final offer price was not set at the bottom end of the indicative offer price range.

The Exchange was concerned that public subscription tranche investors may be “stuffed” with offer shares that were priced higher than actual market demand. It was therefore considered appropriate to impose the Allocation Cap to reduce the risk of such mispriced issues.

## A. Regulatory Lock-up on Cornerstone Investment

### Current requirement

201. IPO securities placed to cornerstone investors must be “locked-up” for a period of at least six months after the listing date<sup>132</sup>. A cornerstone investor cannot sell those IPO shares during the lock-up period.

### Issues

#### *Potential share price volatility upon lock-up expiry*

202. The share price of an issuer that lists with a large cornerstone placing tranche can be volatile at the expiry of the six-month lock-up period, as the market anticipates that cornerstone investors may sell as soon as the lock-up expires (known as an “overhang” of shares). This issue may be compounded by the simultaneous expiry of voluntary lock-ups on shares held by pre-IPO investors, which may also be set with a six month post-listing expiry date.

#### *Impact on the type of investors under the cornerstone placing tranche*

203. Some stakeholders believed that the lock-up requirement affects the type of investors who are likely to become cornerstone investors in the following ways:
- (a) Independent institutional investors (including investment managers) may be deterred from participating as cornerstone investors because of the lock-up requirement. We were informed by stakeholders that:
    - (i) fund mandates prohibit some of these institutional investors from holding illiquid investments; and
    - (ii) some institutional investors (even with long-only investment strategy) may prefer to have the flexibility to be able to dispose of some, or all, of the IPO securities they receive (e.g. if there is a sudden change in market conditions).
  - (b) Investors who participate in the IPO for strategic and/or non-financial reasons are less likely to be deterred by the lock-up requirement.

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<sup>132</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.15](#), paragraph 27(ii).



### ***Comparison with international requirements***

204. The Exchange's regulatory requirements on cornerstone investors are unique. Most other jurisdictions<sup>133</sup> do not impose any regulatory lock-up requirement on cornerstone investors (or equivalent<sup>134</sup>).

### **Proposal**

205. We seek market views on the following two options:–

**Option A:** To retain the current requirement that IPO securities placed to cornerstone investors be locked-up for at least six months following the listing date.

**Option B:** To allow a staggered lock-up release arrangement such that, at a minimum:

- (a) all IPO securities placed to cornerstone investors will be subject to a lock-up period of three months following the listing date; and
- (b) 50% of the IPO securities placed to cornerstone investors will be subject to a lock-up period of three months commencing on the date on which the period as referred to in (a) expires.

206. Cornerstone investors would continue to be allowed to enter into voluntary lock-up arrangements (staggered or unstaggered), with the issuer and its underwriters, that are longer than that required by the Exchange.

### **Rationale**

#### ***Need for a regulatory lock-up requirement***

207. The purpose of cornerstone investment is to demonstrate, to other potential investors, the confidence of the cornerstone investor in the success of an IPO and the long-term prospects of the IPO issuer. Consequently, stakeholders believed that they should be subject to lock-up requirement as proof of these cornerstone investors' confidence.
208. We also found the lock-up requirement was viewed by many stakeholders as a fair "quid pro quo" for the guaranteed allocation of IPO securities received by cornerstone investors.
209. Some stakeholders believed that, without any regulatory lock-up requirement, the issuer and its underwriters may have difficulty incentivising cornerstone investors to enter into lock-up agreements voluntarily, especially when market conditions are weak.

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<sup>133</sup> Australia, Singapore, the UK, and the US.

<sup>134</sup> For example, in the US, there are anchor investors who would indicate interest to purchase shares in an IPO and agreed to have their names disclosed in the prospectus (but are not guaranteed to receive any share allocation). These investors are not subject to any lock-up requirements.

### ***Potential share price volatility upon lock-up expiry***

210. Some stakeholders informed us that a staggered lock-up release arrangement would alleviate the impact of sharp share price volatility on the release of the lock-up (see paragraph 202) and improve post-listing liquidity. In the US, larger IPOs sometimes adopt multiple contractual (rather than regulatory) lock-up periods of different lengths on certain IPO investors so that the market is not flooded with a very large new supply of shares (released from lock-up) in a single trading session.
211. However, other stakeholders considered that multiple releases of lock-up shares would result in an increased risk of volatility caused by more frequent triggers of an “overhang” of shares.

### ***Impact on the type of investors under the cornerstone placing tranche***

212. Some stakeholders argued that relaxing the lock-up requirement would encourage more independent institutional investors to participate as cornerstone investors (see paragraph 203(a)). The participation of such investors as cornerstone investors may give other investors a more reliable indication of the issuer’s share price performance after listing, as these investors were more likely to perform due diligence on the issuer’s business and negotiate a fair price (which will form the highest price in the indicative offer price range stated in the issuer’s prospectus (see paragraph 187)).
213. Other stakeholders argued that relaxing the lock-up requirement would instead incentivise investors who focus on short-term gains to participate as cornerstone investors. This may undermine the degree of commitment and confidence that cornerstone investors bring to the issuer’s IPO and future prospects. Some also said that certain independent institutional investors would be permitted to invest in an IPO even if their shares were to be locked up<sup>135</sup>.

#### **Question 8**

In respect of the lock-up requirement on IPO securities placed to cornerstone investors, would you prefer to:

- (a) retain the existing six-month lock-up (as set out in Option A in paragraph 205 of the Consultation Paper); or
- (b) allow a staggered release of the six-month lock-up (as set out in Option B in paragraph 205 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

<sup>135</sup> Some stakeholders mentioned that certain investment managers have adjusted the terms of their fund mandate to permit investment as cornerstone investors in Hong Kong IPOs, because of the Exchange’s regulatory lock-up requirement.

## **B. Allocation to the Placing Tranche**

### **Current requirement**

214. In general, there is currently no minimum, or cap, on the number of shares allocated to the placing tranche in an IPO.
215. For a Specialist Technology Company, the Listing Rules require at least 50% of the total number of shares offered in the IPO<sup>136</sup> to be taken up by independent price setting investors in the placing tranche (whether as cornerstone investors or otherwise)<sup>137</sup>. This is because it is more difficult for investors to reach a consensus on the valuation of Specialist Technology Companies, compared to companies from traditional industries, due to the nature of their businesses and industries.

### ***Spread of placees***

216. The Rules require that IPO securities be placed with an adequate spread of holders. While the minimum number depends on the size of the placing, as a guideline, the Rules state that there should be not less than three holders for each HK\$1 million of the placing, with a minimum of 100 holders<sup>138</sup>.

### ***Bookbuilding and placing activities***

217. In addition to the above Listing Rule requirements, intermediaries carrying out bookbuilding and placing activities are subject to additional requirements under the SFC Code of Conduct<sup>139</sup>. Under this code, an overall coordinator is required to devise a “marketing and investor strategy” and “allocation policy” taking into account the issuer’s preferences and objectives with respect to pricing and the desired shareholder or investor base, including who may be suitable to be cornerstone investors<sup>140</sup>.
218. For the avoidance of doubt, both the cornerstone placing tranche and the bookbuilding placing tranche involve bookbuilding and placing activities as prescribed under paragraph 21.1.1 of the SFC Code of Conduct and are therefore governed by paragraph 21 of the SFC Code of Conduct. Intermediaries that engage in collating orders (including indications of interest) from the cornerstone investors or marketing or distributing shares to the cornerstone investors should observe the relevant requirements under paragraph 21 of the SFC Code of Conduct.

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<sup>136</sup> Excluding any shares to be issued pursuant to the exercise of any over-allotment option

<sup>137</sup> MB Rule 18C.08. See also HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 2.5](#), paragraph 42 for the qualification requirements for an independent price setting investor.

<sup>138</sup> MB Rules Appendix F1, paragraph 4.

<sup>139</sup> SFC Code of Conduct, paragraph 21.

<sup>140</sup> SFC Code of Conduct, paragraphs 21.4.3(a) and 21.4.4(c).

## **Issues**

### ***A small bookbuilding placing tranche may result in mispricing***

219. The bookbuilding process is a key mechanism for determining market demand and the final offer price of IPO shares. A smaller bookbuilding placing tranche (as a percentage of the offer size) may increase the chance that the price discovery process is compromised (see paragraphs 190 to 191).
220. Of the 730 IPOs conducted on the Main Board of the Exchange during 2017 to 2023, 150 (20.5%) had a bookbuilding placing tranche that comprised less than 50% of the shares on offer.

### ***Risk of a lack of independent institutional investor participation***

221. Stakeholders believe that the participation of independent institutional investors helps ensure that the IPO price discovery process is effective, as these investors are more likely to perform pre-IPO due diligence and research on the business of an IPO applicant.
222. Independent institutional investors may prefer to subscribe for IPO shares under the bookbuilding placing tranche, as participation in this tranche gives them negotiation power in the setting of the final offer price (see paragraphs 190 to 191) and does not prevent them from selling their shares after the IPO (see paragraph 189(d)), even though there is no guarantee in the amount of shares they will be allocated.
223. Cornerstone investors, in comparison, have less control over the final offer price, as the valuation they indicate to be acceptable will only contribute to setting the top of the indicative offer price range. Also, the shares they subscribe for, under the cornerstone placing tranche, would be subject to post-IPO lock-up. However, cornerstone investors will receive guaranteed allocation of offer shares based on the total investment amount that they committed.
224. Independent institutional investors generally require reasonable certainty that a meaningful allocation will be offered to them to justify the time and resources they devote to pre-IPO due diligence and research and post-IPO monitoring of their investment. Consequently, a small bookbuilding placing tranche (relative to the offer size) may deter independent institutional investors from participating in an IPO.

### ***Spread of placees***

225. Stakeholders have expressed the following concerns as to the placee spread requirement (see paragraph 216):
  - (a) the current requirements do not help optimise price discovery as issuers can place a very small number of shares with many holders merely to meet the requirement; and
  - (b) 100 shareholders is too large a number for a meaningful amount of shares to be placed with each one, particularly for smaller sized IPOs.

226. We are not aware of any similar requirements on the spread of placees imposed by other international stock exchanges.

## **Proposals**

### ***“Ring-fencing” the bookbuilding placing tranche***

227. To optimise IPO price discovery, we propose to “ring-fence” the bookbuilding placing tranche to help ensure that a meaningful portion of IPO shares is always allocated to that tranche.
228. For this purpose, we propose that at least 50% of the total number of shares initially offered in an IPO be allocated to investors in the bookbuilding placing tranche<sup>141</sup>.

### **Specialist Technology Companies**

229. We propose not to apply the proposed requirement to the initial listing of Specialist Technology Companies.

### ***Spread of placees***

230. We propose to remove the guideline that there should not be less than three holders for each HK\$1 million of the placing, with a minimum of 100 holders in an IPO placing tranche.

## **Rationale**

### ***“Ring-fencing” the bookbuilding placing tranche***

231. Bookbuilding contributes most strongly to the final pricing of IPOs (see paragraph 190 above). While some stakeholders commented that ring-fencing the bookbuilding placing tranche may be considered as setting an indirect cap on cornerstone investments, we believe that a meaningful allocation to investors in the bookbuilding placing tranche would help optimise IPO price discovery as bookbuilding placees are key “price setters” in an IPO.

### **Specialist Technology Companies**

232. Specialist Technology Companies may lack a track record of revenue and profit and may operate in frontier industries. Also, the viability of their business models may be uncertain. For these reasons it is more difficult for investors to reach a consensus on the valuation of Specialist Technology Companies compared to companies from traditional industries.

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<sup>141</sup> This means that the 50% minimum requirement would be determined by reference to the total number of shares on offer as disclosed in the prospectus, which is prior to the exercise of any over-allotment option or offer size adjustment option. For the purpose of this requirement, only those shares that are allocated to investors under the bookbuilding placing tranche would be counted.

233. Therefore, we continue to believe that the existing, more stringent, requirements for Specialist Technology Companies (see paragraph 215) are appropriate<sup>142</sup> and so do not propose to amend the IPO allocation requirements for these companies.

### ***Spread of placees***

234. We believe that the existing minimum shareholder spread requirement (i.e. 300 shareholders for Main Board and 100 shareholders for GEM)<sup>143</sup>, which will be maintained, is sufficient to ensure an adequate spread of holders of the securities as at listing. So, we believe it is unnecessary to impose a separate and additional minimum spread of 100 holders for an IPO placing and require not less than three holders for each HK\$1 million of the placing in particular.
235. What constitutes an adequate spread of holders in an IPO placing tranche depends on specific facts and circumstances. This includes the size of an offer (and allocation to the placing tranche), the characteristics of the issuer, prevailing market conditions, the number of the underwriting syndicate members, market sentiment and interest in the issuer. We therefore believe it would be more appropriate for the spread of placees to be evaluated by each issuer and its advisers on a case-by-case basis, taking into account the issuer's circumstances at the time of its IPO.
236. Issuers and their advisers are reminded of their responsibilities to ensure an adequate spread of holders for the IPO placing tranche and to refer to the relevant provisions under the SFC Code of Conduct.

### ***Potential concerns on removal of the minimum spread of placees guideline thresholds***

237. Some stakeholders consider the current minimum spread of 100 placee requirement helped ensure that the placing tranche is a genuine transaction, as such a large number of holders made it more difficult for issuers and placees to manipulate the trading price and volume of the shares. This in turn, reduced the risk of a false market developing after listing.
238. We acknowledge the concerns of these stakeholders and the benefit of having a wide spread of shareholders to maintain an open market. However, we also note that, in practice, an issuer may meet the requirement by placing a small number of shares with many holders without meaningfully increasing the spread of shareholding. Accordingly, we believe that the proposed removal of the minimum guideline would not substantially increase the risks mentioned above.

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<sup>142</sup> HKEX (October 2022), [Consultation Paper on a Listing Regime for Specialist Technology Companies](#), paragraph 199.

<sup>143</sup> MB Rule 8.08(2) (GEM Rule 11.23(2)(b)).

**Question 9**

9.1 Do you agree that at least 50% of the total number of shares initially offered in an IPO should be allocated to investors in the bookbuilding placing tranche (as set out in paragraphs 227 and 228 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

9.2 If your answer to Question 9.1 is “yes”, do you agree that the proposed requirement should not be applied to the initial listing of Specialist Technology Companies (as set out in paragraphs 229 of the Consultation Paper)?

Please give reasons for your views.

**Question 10**

10.1 Do you agree with the proposed removal of the guideline on minimum spread of placees, being not less than three holders for each HK\$1 million of the placing, with a minimum of 100 holders in an IPO placing tranche (as set out in paragraph 230 of the Consultation Paper)?

Please give reasons for your views.

10.2 Do you consider that other safeguarding measures should be implemented to ensure an adequate spread of holders in the placing tranche, in light of the proposal (as set out in paragraph 230 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

## C. Allocation to the Public Subscription Tranche

### Current requirements

239. The Listing Rules require that a minimum number of shares be allocated to the public subscription tranche as set out in Table 8 below.

**Table 8: Minimum allocation of shares to the public subscription tranche<sup>144</sup>**

	Initial allocation	Demand for shares in the public subscription tranche in number of times (x) the initial allocation		
		≥15x to <50x	≥50x to <100x	≥100x
Minimum percentage of offer shares allocated to the public subscription tranche	10%	30%	40%	50%

### *Typical minimum allocation waiver*

240. The Exchange has granted waivers from strict compliance with the minimum allocation requirements to the public subscription tranche based on individual facts and circumstances. The typical parameters for granting such waivers have been<sup>145</sup>:

- (a) the size of an applicant's total offering (including any over-allotment option or sale of shares by existing shareholders) should be significant: the majority of previous waiver applications were for offerings over HK\$10 billion; and
- (b) the parameters for the minimum allocation of shares to the public subscription tranche be revised in accordance with Table 9 below<sup>146</sup>.

<sup>144</sup> MB Rules Practice Note 18, paragraph 4.2 (GEM Rules Practice Note 6, paragraph 4).

<sup>145</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraph 4.

<sup>146</sup> The Exchange may also permit a deviation from the typical parameters for a waiver. See HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraph 5.



**Table 9: Minimum allocation of shares to the public subscription tranche under typical waivers**

	Initial allocation	Demand for shares in the public subscription tranche in number of times (x) the initial allocation		
		≥15x to <50x	≥50x to <100x	≥100x
Minimum percentage of offer shares allocated to the public subscription tranche	5%	7.5%	10%	20%

***Allocation requirements for Specialist Technology Companies***

241. The minimum allocation of shares to the public subscription tranche for a Specialist Technology Company is set out in Table 10 below.

**Table 10: Minimum allocation of shares to the public subscription tranche for a Specialist Technology Company<sup>147</sup>**

	Initial allocation	Demand for shares in the public subscription tranche in number of times (x) the initial allocation	
		≥10x to <50x	≥50x
Minimum percentage of offer shares allocated to the public subscription tranche	5%	10%	20%

**Issues**

***Change in investor composition***

242. In 1998, when the clawback mechanism was introduced, retail investors contributed to a significantly higher proportion of cash market activity than they do today. HKEX's Members Transaction Survey 1997 states that these investors represented 53% of cash market trading value. However, their share of trading activity on the Exchange has decreased, since then, to just 12% in March 2023<sup>148</sup>. Consequently, there may no longer

<sup>147</sup> MB Rule 18C.09.

<sup>148</sup> Based on the latest data obtained from the Hong Kong Investor ID regime launched in March 2023. See SFC (7 July 2023), [Sustainable and Healthy Ecosystem for the Small-cap Stock Segment of Hong Kong Market](#) (Speech at HKSI Institute Regulatory Luncheon by Julia Leung, Chief Executive Officer), p.3.

be as strong a justification for the extent to which the Listing Rules guarantee IPO share allocation to the public subscription tranche.

### ***Comparison with international requirements***

243. We are not aware of requirements for a minimum allocation of offer shares to retail investors (or the public) on other international stock exchanges. This is except for the SGX Mainboard, where issuers must allocate a minimum of 5% of the number or S\$50 million in value (whichever is lower) of the offer securities to the public subscription tranche<sup>149</sup> (i.e. lower than the minimum initial allocation of 10% of offer shares to the public subscription tranche in Hong Kong (see paragraph 239)).
244. We are also not aware of any international stock exchanges with a clawback mechanism. In 2012, SGX proposed to introduce a clawback mechanism<sup>150</sup>. However, SGX decided not to adopt the proposal as respondents were largely unsupportive. They believed that a clawback mechanism<sup>151</sup>:
- (a) would increase the uncertainty of allocations to the placing tranche; and
  - (b) may create an unintended impression, that in a popular IPO, the placing tranche would be scaled down while, in less popular ones, the placing tranche would serve the purpose of absorbing unmet demand from public investors.

### ***Impact on price discovery***

245. For the reasons explained above (see paragraphs 194 and 196), participants in the public subscription tranche are “price takers” in an IPO as they must pay for IPO shares at the final IPO price and have no power to negotiate that price. Increasing the proportion of IPO shares allocated to the public subscription tranche, due to the “clawback” mechanism, increases the risk of an IPO being priced above the price which most places accept under the bookbuilding placing tranche.

### ***Lower deal flexibility***

246. The mandatory clawback mechanism reduces the degree of flexibility that a listing applicant and syndicate members have when deciding on the best offering structure to meet an issuer’s needs. This is because they are required to allocate a greater proportion of shares to the public subscription tranche, if demand from participants in that tranche is strong, even though the issuer may not prefer to do so.

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<sup>149</sup> SGX Mainboard Rule [233A\(1\)](#).

<sup>150</sup> The proposed clawback mechanism would increase the size of the public subscription tranche to 10% of the offer when the total demand for shares in that tranche is between 15 and 50 times the initial allocation; and to 20% of the offer when demand is over 50 times the initial allocation. See SGX (October 2012), [Consultation Paper on Proposed Initiatives in relation to Offer Structure of Initial Public Offers](#), Proposal 3.

<sup>151</sup> SGX (February 2016), [Response to Comments on the Consultation Paper on Proposed Initiatives in relation to Offer Structure of Initial Public Offers](#), paragraph 3.1.

### ***Uncertainty may deter independent institutional investor participation***

247. For the reasons stated above (see paragraph 221), independent institutional investors contribute strongly to an effective price discovery process. The mandatory clawback mechanism has the potential of proportionately reducing the allocation of IPO shares to the placing tranche. This means independent institutional investors have less certainty they will receive the allocation they have indicated they are willing to purchase (see paragraph 224), which may deter them from participating in Hong Kong IPOs.

### **Proposal**

248. We propose to replace the existing minimum allocation of offer shares to the public subscription tranche with a requirement that a listing applicant (other than a Specialist Technology Company) must ensure either:
- (a) a prescribed allocation of offer shares to the public subscription tranche that follows the initial allocation and clawback mechanism requirements for Specialist Technology Companies (see Table 10) (“Mechanism A”); or
  - (b) a minimum initial allocation of 10% of offer shares to the public subscription tranche with no clawback mechanism<sup>152</sup> (“Mechanism B”).
249. Listing applicants adopting Mechanism A will be prohibited from adopting an offering mechanism that deviates from the prescribed percentages (i.e. the allocation percentages are fixed instead of minimum) and the minimum triggering thresholds, unless the Exchange otherwise permits so by way of case-by-case waivers.
250. Listing applicants adopting Mechanism B will be able to allocate at least 10% of offer shares, and up to 50% (due to our proposal in Section II.B to “ring-fence” 50% of offer shares to the bookbuilding placing tranche), to the public subscription tranche.

### ***Specialist Technology Companies***

251. In the case of Specialist Technology Companies, we propose that they may only adopt the existing initial allocation and clawback mechanism designed for them, i.e. Mechanism A.

### **Rationale**

252. Our proposals aim to address the issues identified above (see paragraph 242 to 247).
253. Stakeholders recognised that participation by Hong Kong retail investors in an IPO can support the building of demand for IPO shares and potentially contribute to the post-listing liquidity of the shares to be listed. However, most were supportive of reducing the mandatory allocation to the public subscription tranche.

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<sup>152</sup> For the avoidance of doubt, offer shares may still be reallocated from the placing tranche to the public subscription tranche subject to the restrictions on Reallocation and PO Over-allocation as explained in Section II.D in this chapter.

254. Some stakeholders preferred removing the clawback mechanism to provide more certainty of allocation for participants in this tranche and all IPO tranches. Other stakeholders preferred retaining the clawback mechanism but reducing clawback percentages to provide additional flexibility to issuers.
255. We see merit in both approaches and our proposal aims to provide issuers with the flexibility to choose between these two mechanisms, depending on their circumstances and market conditions.

### ***Specialist Technology Companies***

256. Due to the inherent difficulty in valuing Specialist Technology Companies (see paragraph 232), the existing requirements on the offering mechanism for Specialist Technology Companies is tailored for these issuers to help ensure a robust price discovery by making a sufficient portion of offer shares available to investors in the placing tranche who participate in the bookbuilding process<sup>153</sup>. We believe that this should continue to apply to Specialist Technology Companies given the nature of these companies. Accordingly, we propose to allow them to adopt Mechanism A only.

### **Impact of our proposal**

257. Under Mechanism A, if the clawback mechanism is triggered, in full, due to high over-subscription, 15% of the offer will be reallocated from the placing tranche to the public subscription tranche. To preserve a 50% allocation to the bookbuilding placing tranche (due to our proposal in Section II.B to “ring-fence” 50% of the offer to the bookbuilding placing tranche), there is a possibility that placings to cornerstone investors would have to be scaled back<sup>154</sup>. An issuer adopting Mechanism A will need to take this into account when structuring its IPO<sup>155</sup>.

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<sup>153</sup> HKEX (March 2023), [Consultation Conclusions on a Listing Regime for Specialist Technology Companies](#), paragraph 365.

<sup>154</sup> For example, under Mechanism A, up to 15% of the offer could be reallocated from the placing tranche to the public subscription tranche. As such, the issuer has to cut down on placings to cornerstone investors (by up to 15% of the offer).

<sup>155</sup> This means that the issuer may choose to structure its IPO with not more than 30% initial allocation to the cornerstone placing tranche so that there will be sufficient offer shares under the bookbuilding placing tranche to be reallocated to the public subscription tranche when the clawback mechanism is triggered.

**Question 11**

11.1 Do you agree with the proposal to require issuers to adopt either Mechanism A or Mechanism B with respect to a minimum allocation of offer shares to the public subscription tranche (as set out in paragraphs 248 to 250 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

11.2 If your answer to Question 11.1 is “yes”, do you agree with the proposal to require Specialist Technology Companies to only adopt the existing initial allocation and clawback mechanism designed for them, i.e. Mechanism A (as set out in paragraph 251 of the Consultation Paper)?

Please give reasons for your views.

## D. Restrictions on Reallocation and PO Over-allocation

### Current requirements

258. Certain restrictions apply on the Reallocation<sup>156</sup> and/or PO Over-allocation<sup>157</sup> as set out in Table 11 below<sup>158</sup>. Such restrictions aim to minimise the risks of public subscription tranche investors being “stuffed” with IPO shares at a price that is undesirable to placing tranche participants (see paragraphs 198 to 200).

**Table 11: Current application of restrictions on Reallocation and/or PO Over-allocation**

		Public subscription tranche		
		Undersubscribed	Fully subscribed or oversubscribed by less than 15 times*	Oversubscribed by 15 times* or more
Placing tranche	Undersubscribed	IPO cannot proceed unless shortfall is taken up by underwriters	Restrictions on Reallocation and/or PO Over-allocation	
	Fully subscribed or oversubscribed	No Reallocation or PO Over-allocation <sup>†</sup>	Restrictions on Reallocation and/or PO Over-allocation	Clawback mechanism

\* Or such minimum triggering threshold of the modified clawback mechanism previously agreed with the Exchange (if applicable).

† Where there is insufficient demand in the public subscription tranche to take up the initial allocation, offer shares may be reallocated from the public subscription tranche to the placing tranche. See MB Rules Practice Note 18, paragraph 4.2 (GEM Rules Practice Note 6, paragraph 4).

259. The restrictions on Reallocation and PO Over-allocation are as follows<sup>159</sup>:

- (a) the Allocation Cap applies such that the maximum number of shares permitted under the public subscription tranche after Reallocation and/or PO Over-allocation must be the lesser of:

<sup>156</sup> “Reallocation” refers to the reallocation of offer shares from the placing tranche to the public subscription tranche.

<sup>157</sup> “PO Over-allocation” refers to the over-allocation of offer shares to the public subscription tranche.

<sup>158</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraph 9.

<sup>159</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraph 9.

- (i) double of initial allocation to public subscription tranche (e.g. 20% of the total offering if the initial allocation of shares to the public subscription tranche is 10% of the total offering); and
  - (ii) 30% of the total offering (before over-allocation) (referred to as the **“Maximum Allocation Cap Percentage Threshold”** in this section); and
- (b) the offer price must be fixed at the lower of:
- (i) indicative offer price or bottom of the offer price range; and
  - (ii) downward adjusted final offer price under the Existing Pricing Flexibility Mechanism (if adopted).

## **Issues**

### ***Interplay with the clawback mechanism***

260. Our proposal to revise, or remove, the initial allocation to the public subscription tranche and the clawback mechanism (see paragraph 248 in Section II.C above), if adopted, would require consequential amendments to be made to:
- (a) the triggering conditions under which the restrictions on Reallocation and/or PO Over-allocation would apply; and
  - (b) the Maximum Allocation Cap Percentage Threshold.

## **Proposals**

261. We propose to retain the Allocation Cap.
262. Subject to the proposals on minimum allocation of offer shares to the public subscription tranche (as set out in paragraph 248 of the Consultation Paper) being adopted, we propose to make consequential amendments to the triggering conditions of the restrictions on Reallocation and PO Over-allocation, as shown in Table 12 below.
263. We propose to lower the Maximum Allocation Cap Percentage Threshold (i.e. limb (ii) of the Allocation Cap as set out in paragraph 259(a)) from 30% to 15%. Accordingly, pursuant to the revised Allocation Cap, the maximum number of shares permitted under the public subscription tranche after Reallocation and/or PO Over-allocation shall be the lesser of:
- (a) double the initial allocation to the public subscription tranche; and
  - (b) 15% of the total offering (before over-allocation).

**Table 12: Proposed application of restrictions on Reallocation and/or PO Over-allocation**

<b>(A) In the case where an issuer adopts Mechanism A (see Section II.C):</b>				
		<b>Public subscription tranche</b>		
		<b>Undersubscribed</b>	<b>Fully subscribed or oversubscribed by less than <u>10</u> times*</b>	<b>Oversubscribed by <u>10</u> times* or more</b>
<b>Placing tranche</b>	<b>Undersubscribed</b>	IPO cannot proceed unless shortfall is taken up by underwriters	Restrictions on Reallocation and/or PO Over-allocation	
	<b>Fully subscribed or oversubscribed</b>	No Reallocation or PO Over-allocation <sup>†</sup>	Restrictions on Reallocation and/or PO Over-allocation	Clawback mechanism
<b>(B) In the case where an issuer adopts Mechanism B (see Section II.C):</b>				
		<b>Public subscription tranche</b>		
		<b>Undersubscribed</b>	<b>Fully subscribed or oversubscribed</b>	
<b>Placing tranche</b>	<b>Undersubscribed</b>	IPO cannot proceed unless shortfall is taken up by underwriters	Restrictions on Reallocation and/or PO Over-allocation <sup>‡</sup>	
	<b>Fully subscribed or oversubscribed</b>	No Reallocation or PO Over-allocation <sup>†</sup>		

\* Or such minimum triggering threshold of the modified clawback mechanism previously agreed with the Exchange (if applicable).

† Shares may be transferred from the public subscription tranche to the placing tranche where there is insufficient demand in the former to take up the initial allocation.

‡ No Reallocation or PO Over-allocation if the initial allocation to the public subscription tranche exceeds 15%.



## Rationale

### *Retaining the Allocation Cap*

264. We believe that the Allocation Cap should be retained to minimise the risk of investors under the public subscription tranche from being “stuffed” with IPO shares at a price that is undesirable to placing tranche participants (see paragraphs 198 to 200). The Allocation Cap will continue to apply under circumstances where:
- (a) an IPO is well received by investors under the public subscription tranche but demand in the placing tranche is weak (i.e. offer shares initially allocated under that tranche are undersubscribed); or
  - (b) the over-subscription rate of the public subscription tranche is not high enough to trigger the clawback mechanism.
265. As illustrated in Table 13 below, in the absence of an Allocation Cap, up to 45% of the offer could be reallocated from the placing tranche to the public subscription tranche (resulting in a final allocation of up to 50% of offer shares to the public subscription tranche). This risk of “stuffing” public investors with IPO shares not taken up by the placing tranche investors can be mitigated if the Allocation Cap is retained (and modified as proposed). Reallocation will be limited to a maximum of 5% of the offer (resulting in a final allocation of up to 10% or 15% of offer shares to the public subscription tranche, depending on the offering mechanism adopted by the applicant).

**Table 13: Illustration of maximum Reallocation with and without an Allocation Cap**

	IPO tranche	Offering mechanism adopted*	
		Mechanism A	Mechanism B
<b>Initial allocation</b>	Placing	95%	90%
	Public subscription	5%	10%
<b>Final allocation (without an Allocation Cap)</b>	Placing	50% <sup>†</sup>	50% <sup>†</sup>
	Public subscription	50%	50%
	<b>Reallocation</b>	<b>45%</b>	<b>40%</b>
<b>Final allocation (under the proposed Allocation Cap)</b>	Placing	90%	85%
	Public subscription	10%	15%
	<b>Reallocation</b>	<b>5%</b>	<b>5%</b>

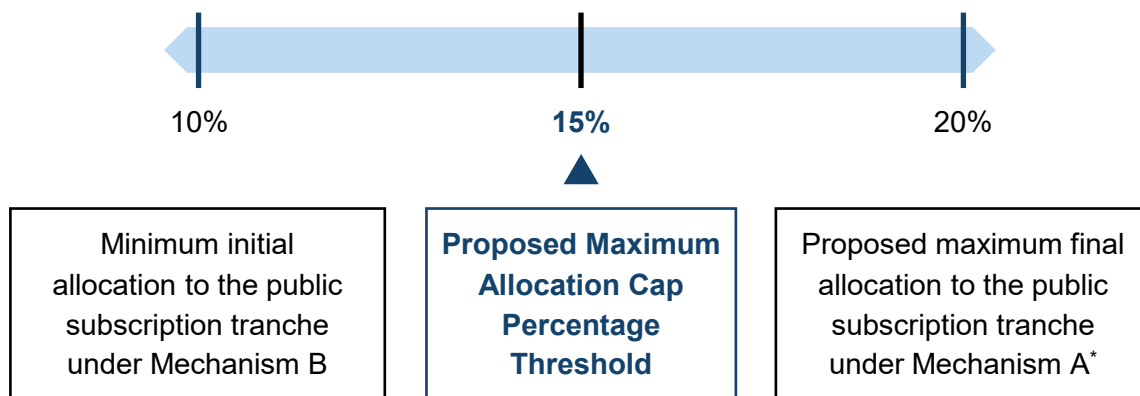
\* See our proposal in Section II.CC.

<sup>†</sup> This is to preserve a 50% allocation to the bookbuilding placing tranche.

### ***Rationale for the consequential amendments***

266. Our proposed changes to the application of restrictions on Reallocation and PO Over-allocation are consequential amendments that are consistent with the changes we propose to be made to allocations to the public subscription tranche (see Section II.C above).
267. Figure 2 below illustrates the rationale for setting the proposed Maximum Allocation Cap Percentage Threshold at 15%.

**Figure 2: Choice of the proposed Maximum Allocation Cap Percentage Threshold**



\* Whilst the clawback mechanism (under Mechanism A) and the Allocation Cap would not be triggered at the same time, in order for the Allocation Cap to be effective to prevent investors under the public subscription tranche from being “stuffed” with unwanted shares under the placing tranche, the Maximum Allocation Cap Percentage Threshold should not exceed the final allocation to the public subscription tranche when the clawback mechanism is exercised in full.

### **Impact of our proposal**

268. Under Mechanism A, under circumstances where restrictions on Reallocation and PO Over-allocation apply, the effective Allocation Cap will be 10% of the offer (as set out in paragraph 263(a), being double the 5% initial allocation to the public subscription tranche).
269. Under Mechanism B, under circumstances where restrictions on Reallocation and PO Over-allocation apply:
- (a) where the initial allocation to the public subscription tranche is smaller than 15% of the offer, the effective Allocation Cap will be 15% of the offer (as set out in paragraph 263(b), being the proposed Maximum Allocation Cap Percentage Threshold<sup>160</sup>); and
  - (b) where the initial allocation to the public subscription tranche is larger than 15% of the offer, no Reallocation or PO Over-allocation will be permitted. This is because

<sup>160</sup> This is because double the 10% initial allocation to the public subscription tranche, being 20% of the offer, will exceed the Maximum Allocation Cap Percentage Threshold of 15%.

the issuer will already have a relatively large initial allocation to the public subscription tranche. Further increasing the allocation to the public subscription tranche may increase the risk of the IPO being mispriced.

**Question 12**

12.1 Do you agree that we should retain the Allocation Cap?

Please give reasons for your views.

12.2 If your answer to Question 12.1 is “yes” and subject to the proposals on minimum allocation of offer shares to the public subscription tranche (as set out in paragraph 248 of the Consultation Paper) being adopted, do you agree with the proposed consequential amendments to the triggering conditions of the restrictions on Reallocation and PO Over-allocation (as set out in paragraph 262 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

12.3 If your answer to Question 12.1 is “yes” and subject to the proposals on minimum allocation of offer shares to the public subscription tranche (as set out in paragraph 248 of the Consultation Paper) being adopted, do you agree with the proposed consequential amendments to lower the proposed Maximum Allocation Cap Percentage Threshold from 30% to 15% (as set out in paragraph 263 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

### III. Pricing Flexibility Mechanism

#### Current requirements

270. Listing applicants and their advisers are expected to “conduct a reasonably robust price discovery process before determining a realistic indicative offer price or price range of the offer shares for inclusion in the listing document”<sup>161</sup>. Accordingly in most cases, the final offer price is set within the indicative price range stated in the prospectus.

271. However, issuers are permitted to set an offer price below the indicative price range stated in the prospectus (see Box 4), if they can comply with certain conditions<sup>162</sup>, including:

(a) Price reduction limits:

- (i) if an indicative offer price is adopted, the final offer price must not be lower than 10% below the indicative offer price; and
- (ii) if an offer price range is adopted, the top of such offer price range must not be more than 30% above the bottom of that range, and the final offer price must not be lower than 10% below the bottom of that range.

(b) Enhanced disclosure in the prospectus<sup>163</sup>:

- (i) a prominent statement on the possibility of the downward adjustment must be included in the prospectus, application forms and formal notice; and
- (ii) the potential impact of the downward adjustment (including change in net proceeds and use of listing proceeds, impact on future expansion plans, sufficiency of working capital, cash flow and an appropriate risk factor) must be disclosed in the prospectus

(referred to as the “**Existing Pricing Flexibility Mechanism**” in this section).

272. If a listing applicant wishes to price the final offer price above the indicative offer price (or the top of the offer price range)<sup>164</sup>, it is required to first cancel its IPO and relaunch it at the revised price alongside a supplemental or new prospectus. It must also give

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<sup>161</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraph 12.

<sup>162</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraphs 13 and 14.

<sup>163</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraphs 13 and 14.

<sup>164</sup> Also for applicants which (a) have not adopted the Existing Pricing Flexibility Mechanism but decide to lower the offer price; or (b) have adopted the Existing Price Flexibility Mechanism but the final offer price is more than 10% below the indicative offer price or the bottom of the offer price range (as the case may be).

investors at least three business days to consider the new information and complete the requisite settlement processes on FINI<sup>165</sup>.

#### **Box 4: History of the Existing Pricing Flexibility Mechanism**

In 2018, the Exchange published guidance to set out the conditions for the Existing Pricing Flexibility Mechanism. The objective of allowing pricing flexibility for IPOs is to provide an applicant with additional flexibility in pricing its shares to facilitate the determination of the optimal price (which reflects the price discovered through the book-building process) after the close of the public subscription tranche. This mechanism eliminates the costs and time delays resulting from the need to cancel and relaunch IPOs (which could apply if the IPO is to be priced outside of range) for IPOs which satisfy the conditions (see paragraph 271).

The Exchange considered that the availability of downward pricing flexibility could address the concern that some IPOs may be priced at the indicative offer price (or the bottom of the offer price range) to avoid the costs and delay involved in relaunching the IPO, even though their bookbuilding process had indicated a lower final price was preferable to the market<sup>166</sup>.

The Exchange did not introduce any upward pricing flexibility under the Existing Pricing Flexibility Mechanism because, at that time (pre-FINI implementation), investors under the public subscription tranche were mandatorily required to pay the maximum offer price plus fees at the time of application. Permitting upward pricing flexibility would have required their applications to be scaled back, due to insufficient payment of subscription monies.

#### **Issues**

##### ***Lack of upward pricing flexibility results in additional costs and time delays***

273. The Existing Pricing Flexibility Mechanism does not provide upward pricing flexibility. The procedure involved to price an IPO above the initial offer price range (see paragraph 272) causes significant delays to the applicant's listing timetable and so may be unattractive to issuers seeking an IPO.

##### ***Reluctance to use downward only pricing flexibility***

274. Stakeholders have informed us that listing applicants are reluctant to use the Existing Pricing Flexibility Mechanism because of the requirement to disclose that they may do so in the listing document (see paragraph 271(b)). They commented that including such disclosure may indicate a lack of confidence in the issuer's ability to price the IPO within the offer price range or a weak demand for the IPO, and so increases the likelihood of investors bidding below the offer price range or subscribing only for a small amount in the IPO.

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<sup>165</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.14](#), paragraphs 15 to 16.

<sup>166</sup> This was possible with either the underwriters taking up the undersubscribed shares or placing made to "friends and families" of the applicants.

275. These comments are supported by the low frequency of adoption of the Existing Pricing Flexibility Mechanism by listing applicants. Only 7 out of 68 IPOs<sup>167</sup> on the Main Board of the Exchange in 2023 (approximately 10%) have included disclosure on a downward offer price adjustment mechanism in their prospectuses.

276. Some stakeholders believe that more applicants would be willing to use the downward pricing flexibility if an applicant may also price the IPO upwards.

#### ***Limitation of the offer price range as an indicator of the final offer price***

277. Stakeholders also commented that the current absence of upward pricing flexibility may lead to listing applicants setting an initial offer price range with a high maximum offer price to compensate. The purpose of doing so would be to cover the possibility of having to price the IPO upward. They considered that giving issuers the flexibility to price their IPO above the range instead, may result in narrower initial offer price ranges that provide more certainty as to the final offer price.

278. Other stakeholders considered that providing upward pricing flexibility could result in issuers abusing the mechanism to raise the offer price to the maximum extent possible.

#### ***Comparison with international practices***

279. In some jurisdictions (e.g. the UK and Singapore), an offer price range can be disclosed in a prospectus. However, we are not aware of any mechanism that allows the final offer price to fall outside that range without the need to issue a supplemental prospectus.

280. Some stakeholders drew our attention to the practice in the US IPO market, where a 20% upward or downward flexibility on the aggregated deal size is permitted without requiring additional filings with the Securities and Exchange Commission<sup>168</sup>.

#### **Proposals**

281. We propose to expand the Existing Pricing Flexibility Mechanism by allowing listing applicants to adjust the final offer price both upward and downward, after prospectus publication, by a maximum of:

(a) 10% above the indicative offer price or the top of the offer price range; and/or

(b) 10% below the indicative offer price or the bottom of the offer price range

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<sup>167</sup> Excluding applications for transfer of listing and listing by introduction.

<sup>168</sup> In a US IPO, offer price adjustments could be made by filing an immediately effective registration statement and including the adjusted price in the final prospectus, if (a) the revised aggregate deal size does not exceed 120% of the aggregate deal size at the maximum price in the preliminary prospectus; or (b) the revised aggregate deal size is not more than 20% lower than the deal size calculated by the deal size at the minimum price in the preliminary prospectus.

(referred to as the “Proposed Pricing Flexibility Mechanism” in this section)<sup>169</sup>.

282. With regards to the initial offer price range, we seek market feedback on whether, if a listing applicant adopts the Proposed Pricing Flexibility Mechanism, the applicant should:

**Option A:** continue to be able to set the top of the initial offer price range at not more than 30% of the bottom of that range; or

**Option B:** set the top of the initial offer price range at not more than 20% of the bottom of that range.

283. We also propose to provide public offer subscribers an option in their subscription application to “opt-in” in the event of an offer price adjustment (upward, downward, or both directions) is exercised by the listing applicant under the Proposed Pricing Flexibility Mechanism (“Proposed Opt-in Arrangement”).

284. Under the proposal, we would likely enable public offer subscribers to indicate whether they want to subscribe for shares if the final offer price is adjusted upward, downward, or in both directions, in their application by indicating so in the application form. If they do not want to opt-in, their application would not be included for allocation and balloting if the listing applicant adjusts its price pursuant to the Proposed Pricing Flexibility Mechanism. We will provide more details on the mechanism for doing so if our proposal receives market support.

285. Where a listing applicant adopts the Proposed Pricing Flexibility Mechanism that provides for an upward pricing flexibility, we propose to require the listing applicant to include similar prospectus disclosures that are applicable to a downward pricing flexibility mechanism (see paragraph 271(b)).

## **Rationale**

286. Our proposal aims to address the issues set out above (see paragraphs 273 to 279) and strike an appropriate balance between providing flexibility to listing applicants to respond to unexpected market conditions or demand, while providing meaningful guidance to investors in determining whether to participate in an IPO.

287. We propose to adopt an offer price adjustment limit of only 10% in both directions (instead of 20% as in the case of the US) to help ensure that the initial offer price range can give a meaningful indication of the final offer price.

288. The Proposed Opt-in Arrangement would provide public offer subscribers with the flexibility to decide whether or not to participate in the pricing flexibility mechanism according to their risk appetite and allow them to exit from participating from an IPO if the valuation of the listing applicant under the adjusted offer price would no longer be within their expectation.

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<sup>169</sup> We intend to provide greater flexibility for listing applicants to devise their own pricing flexibility mechanism which will allow it to adjust the final offer price either upward, downward, or in both directions.

## Impact of our proposals

### *Effects on offer price range and offer size*

289. The potential effects of our proposals on offer price ranges are illustrated in Table 14 below assuming an IPO with an initial offer price range of HK\$1.0 to HK\$1.3.

**Table 14: Illustration of the effect of the Proposed Pricing Flexibility Mechanism on the final offer price range<sup>170</sup>**

	Existing Pricing Flexibility Mechanism		Proposed Pricing Flexibility Mechanism			
			Option A		Option B	
	Offer price range (HK\$)	As a % of the low-end offer price	Offer price range (HK\$)	As a % of the low-end offer price	Offer price range (HK\$)	As a % of the low-end offer price
<b>Before adjustment</b>	1.0 to 1.3	30%	1.0 to 1.3	30%	1.0 to 1.2	20%
<b>After adjustment</b>	0.9 to 1.3	44%	0.9 to 1.43	59%	0.9 to 1.32	47%

290. Our proposal will also impact the range of IPO aggregate sizes. The Exchange's current guidance materials<sup>171</sup> permit issuers to include in their IPO an offer size adjustment option<sup>172</sup> in the prospectus, which can increase the number of shares to be issued at IPO by not more than 15% of the total number of shares initially available under the offering.

291. Under our proposal, if such offer size adjustment option is adopted, an issuer could increase the aggregate offer size by a maximum of 26.5% (as a percentage of the top of the offer size range)<sup>173</sup> or reduce the aggregate offer size by a maximum of 10% (as a percentage of the bottom of the offer size range)<sup>174</sup>.

<sup>170</sup> On the assumption that the listing applicant adopts an initial offer price range of HK\$1.0 to HK\$1.3 in its IPO.

<sup>171</sup> Company B (2003), [Annex A.18](#), Guide for New Listing Applicants.

<sup>172</sup> Such offer size adjustment option is to be distinguished from an over-allotment option. The latter is mainly used for price stabilization purposes and is also subject to a 15% limit (Company A (2001), [Annex A.18](#), Guide for New Listing Applicants).

<sup>173</sup> Where the issuer exercises the proposed upward pricing flexibility mechanism (maximum 10% upward adjustment in offer price) and the offer size adjustment option (maximum 15% upward adjustment in number of offer shares).

<sup>174</sup> Where the issuer exercises the downward pricing flexibility mechanism (maximum 10% downward adjustment in offer price).



### **Consequential amendments to FINI**

292. Since the launch of FINI, public offer subscription monies are settled only after pricing and balloting. This means that public offer subscribers are no longer required, by the Exchange, to settle their subscription amount before they have been successfully allotted IPO shares<sup>175</sup>.
293. For public offer subscribers who have elected to opt-in to any potential upward pricing adjustment at the application stage, they will not be required, by the Exchange, to pre-pay the subscription amount based on the adjusted top price under FINI<sup>176</sup>.
294. The implementation of the Proposed Pricing Flexibility Mechanism and the Proposed Opt-in Arrangement is subject to certain consequential amendments being made to the IPO settlement workflow under FINI<sup>177</sup>. If the pricing flexibility proposals in this section of this paper are supported, we will provide further details on how the IPO settlement workflow will be revised to accommodate the implementation of our proposals.

#### **Question 13**

13.1 Do you agree that the Existing Pricing Flexibility Mechanism should be amended to include upward pricing flexibility?

Please give reasons for your views and any alternative suggestions.

13.2 If your answer to Question 13.1 is “yes”, do you agree with our proposals to adopt an offer price adjustment limit of 10% in both directions (as set out in paragraph 281 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

13.3 If your answer to Question 13.1 is “yes”, in respect of the initial offer price range, would you prefer adjustment to be made:

(a) up to 30% of the bottom of that range (as set out in Option A of paragraph 282 of the Consultation Paper); or

(b) up to 20% of the bottom of that range (as set out in Option B of paragraph 282 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

13.4 If your answer to Question 13.1 is “yes”, do you agree with the Proposed Opt-in Arrangement (as set out in paragraphs 283 to 284 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

<sup>175</sup> Except for public subscription tranche investors applying for shares through the e-White channel. In addition, although pre-funding is not a requirement under FINI, we understand that certain brokers may require its clients to demonstrate sufficient funding regarding their application in an IPO.

<sup>176</sup> Ibid.

<sup>177</sup> [FINI Information Pack](#), FAQ B1.

13.5 If your answer to Question 13.1 is “yes”, do you agree with our proposal to extend the current disclosure requirements (as set out in paragraph 285 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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## CHAPTER 2: OTHER RULE AMENDMENTS

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295. We propose to make minor amendments to the Listing Rules to: (a) provide greater clarity; (b) codify current practices; and (c) reflect consequential changes following our proposed requirements (as set out in Chapter 1 of this paper). These proposed minor amendments are set out in Sections I to III in this Chapter.
296. We have also taken the opportunity to make housekeeping amendments to the Listing Rules. These amendments do not involve a change in policy direction and correct clerical errors and/or update outdated references.
297. The draft Rule amendments are set out in Appendices I and II to this paper.

### I. Placing Guidelines

#### Current requirements

298. The Placing Guidelines (Appendix F1 to the Main Board Listing Rules) set out criteria that apply to the placing of a class of securities new to listing by a new applicant or a listed issuer<sup>178</sup> to ensure that:
- (a) distribution to the placing tranche is as wide as possible to independent investors who represent genuine demand for securities in a new applicant or a listed issuer;
  - (b) such distribution is not frustrated by the allocation of securities to Exchange Participants and their associates; and
  - (c) any person cannot take advantage of their position to allocate or withhold a material amount of securities for their own benefit at the expense of other placees and the public.
299. Other than the requirement on the adequate spread of placees (as discussed in Section II.B of Chapter 1 above), the Placing Guidelines include, amongst others, the following requirements:
- (a) *Minimum placing amount*: the expected initial market value of the securities to be placed must not be less than HK\$25 million<sup>179</sup>;

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<sup>178</sup> For the purpose of this section, in the case of a new applicant that is a PRC issuer, the reference to a “class of securities new to listing” will be modified to mean H shares for which listing is sought.

<sup>179</sup> Appendix F1 to MB Rules, paragraph 1.

- (b) *Placing cap on “discretionary managed portfolios”*: not more than 25% of the total placing may be allocated to “discretionary managed portfolios”<sup>180</sup>; and
  - (c) *Placing restriction on overall coordinators, syndicate members and distributors*: where there is public demand, no overall coordinator, syndicate member or distributor may retain more than 5% of the shares comprising the total placing<sup>181</sup>.
300. GEM applicants are required to comply with the Placing Guidelines in the Main Board Listing Rules, where applicable<sup>182</sup>.

## **Issue**

301. The Placing Guidelines were introduced in 1986. The current Placing Guidelines are based on the version published in 1989. Consequential amendments to the Placing Guidelines and related Main Board Listing Rules and GEM Listing Rules are necessary to:
- (a) ensure that the requirements reflect regulatory developments over time and our current vetting practice;
  - (b) streamline the relevant requirements, so that such requirements are easy to understand and have a clear purpose; and
  - (c) align the language used in the Main Board Listing Rules and GEM Listing Rules for consistency.

## **Proposals**

302. We propose to remove the requirement regarding the adequate spread of placees as discussed in Section II.B of Chapter 1 above.
303. We also propose to:
- (a) repeal the minimum threshold of HK\$25 million to be placed. This threshold aligns with the minimum market capitalisation that had to be held by the public in the 1989 version of the Rules (HK\$100 million) and public float requirements (25%) at the time. We consider this threshold to be no longer necessary. The allocation proposals set out in this paper (see Section II.B of Chapter 1) should be sufficient to ensure a minimum placement amount;
  - (b) repeal the provision that not more than 25% of the total placing may be allocated to discretionary managed portfolios. This was introduced in 1989 to ensure that

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<sup>180</sup> Appendix F1 to MB Rules, paragraph 6. A “discretionary managed portfolio” refers to a fund of investments, the contents of which are kept under review by an Exchange Participant or any member of the group of which such Exchange Participant is a part which has authority to effect or arrange for the effecting of transactions for the fund at its discretion.

<sup>181</sup> Appendix F1 to MB Rules, paragraph 8.

<sup>182</sup> FAQ 1 of [Annex B.8](#) of the Guide for New Listing Applicants.

securities are allocated to independent and genuine investors. This objective is now largely achieved by: (i) other provisions in the Placing Guidelines (as revised)<sup>183</sup>; and (ii) the conditions and restrictions as set out in our guidance<sup>184</sup>;

- (c) codify the placing restriction on overall coordinators, syndicate members and distributors in the Placing Guidelines<sup>185</sup> to reflect the Exchange’s current vetting practice as set out in our guidance<sup>186</sup>;
- (d) revise the definition of “Connected Client” under the Placing Guidelines to streamline the definition<sup>187</sup>;
- (e) specify that the requirements under the Placing Guidelines (as revised)<sup>188</sup> also apply to placings of securities of a class new to listing by listed issuers; and
- (f) revise various provisions in Chapter 10 of the GEM Listing Rules to align them with the language and requirements of the Main Board Listing Rules (including the Placing Guidelines), as necessary.

304. Details of the proposed amendments are set out in Appendices I and II to this paper.

#### **Question 14**

Do you agree with our proposals to make consequential and housekeeping amendments to the Placing Guidelines (as set out in paragraphs 302 and 303 of the Consultation Paper and Appendices I and II to the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

<sup>183</sup> Appendix F1 to MB Rules, paragraphs 1C and 8 (as set out in Section B of Appendix I to this paper).

<sup>184</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.15](#).

<sup>185</sup> Appendix F1 to MB Rules, paragraph 8 (as set out in Section B of Appendix I to this paper).

<sup>186</sup> HKEX (January 2024) (Last updated September 2024), Guide for New Listing Applicants, [Chapter 4.15](#), paragraph 7. In practice, no overall coordinator, syndicate member or distributor may retain any shares under the offer unless the offer is not fully subscribed and the underwriters are required to take up the unsubscribed shares pursuant to their underwriting obligation or a written consent is granted by the Exchange.

<sup>187</sup> Key amendments (as set out in Section B of Appendix I to this paper) include, but are not limited to, (i) the expansion of the scope in paragraph 1B(2) to cover any non-employee account executive (or any other person with or otherwise acting in similar capacity) of an Exchange Participant; and (ii) the removal of the reference to “close relative” in paragraph 1B(6) and clarification of the Exchange’s current vetting practice, which covers “family member” as well as “majority-controlled company” of such family member (both as defined in Chapter 14A).

<sup>188</sup> Appendix F1 to MB Rules, paragraph 15 (as set out in Section B of Appendix I to this paper).

## **II. Consequential Rule Amendments**

### **A. Bonus Issues of a Class of Securities New to Listing**

#### **Current requirement**

305. The Listing Rule requirement for a minimum spread of securityholders and the cap on the percentage of securities held by the three largest securityholders, at the time of listing, does not apply where the following conditions are met<sup>189</sup>:
- (a) the securities are options, warrants or similar rights to subscribe for or purchase shares (i.e. “equity warrants”);
  - (b) the securities are offered to existing holders of a listed issuer’s shares by way of bonus issue; and
  - (c) in the five years preceding the date of the announcement on the proposed bonus issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders.

#### **Proposal**

306. We propose that the initial public float requirement (see Section I.B.1 of Chapter 1) should also be disapplied for a bonus issue of a new class of securities involving equity warrants, if the conditions set out in paragraphs 305(a) to 305(c) above are met.

#### **Rationale**

307. Since the new class of equity warrants is distributed as a bonus issue pro rata to existing shareholders, there should be no need to impose additional distribution requirements (including public float requirements).
308. Our proposal will mean that:
- (a) the existing exemptions for bonus issues of a new class of securities involving equity warrants will continue to apply to the requirements for a minimum spread of securityholders and the cap on the percentage of securities held by the three largest securityholders (see paragraph 305); and
  - (b) the same exemption will be extended to the application of initial public float thresholds as a consequential amendment. This is because the proposed initial public float requirement (see paragraph 79) will cover all equity securities, which include equity warrants.

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<sup>189</sup> MB Rules 8.08(2) and 8.08(3) (GEM Rules 11.23(3)(b) and 11.23(8)).

**Question 15**

Do you agree with our proposal to disapply the proposed initial public float requirement in the case of a bonus issue of a new class of securities involving options, warrants or similar rights to subscribe for or purchase shares (as set out in paragraph 306 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

## **B. Statement of Minimum Public Float in Listing Document**

### **Current requirement**

309. An issuer with, or seeking, a GEM listing must state the minimum prescribed percentage of public float applicable to securities for which listing is sought in its listing document<sup>190</sup>.

### **Issue**

310. There is no equivalent provision for issuers with, or seeking, a Main Board listing.

### **Proposal**

311. We propose to add new provisions to Appendices D1A and D1B to the Main Board Listing Rules to specify that the listing document must include a statement of the minimum prescribed percentage of public float applicable to the securities for which listing is sought<sup>191</sup>.

### **Rationale**

312. The proposal will reflect our current practice and align listing document disclosure requirements as set out in the Main Board and GEM Listing Rules.

#### **Question 16**

Do you agree with our proposal to add new provisions under Appendices D1A and D1B to the Main Board Listing Rules to require disclosure of the minimum prescribed percentage of public float in listing documents (as set out in paragraph 311 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>190</sup> Appendix D1A to GEM Rules, paragraph 14(4); and Appendix D1B to GEM Rules, paragraph 9(4).

<sup>191</sup> MB Rule 8.08.



## **C. Exceptions for Secondary Listings of Overseas Issuers**

### **Current requirement**

313. The Exchange exempts or waives certain requirements of the Listing Rules for overseas issuers with, or seeking, a secondary listing on the Exchange<sup>192</sup>.

### **Issue**

314. Overseas issuers that has, or is seeking, a secondary listing on the Exchange are not required to comply with MB Rule 8.08 (prescribed percentage of public float only).

### **Proposal**

315. We propose to add a new exception such that MB Rule 8.08A (free float) would not apply to such issuers.

### **Rationale**

316. Since the public float requirement does not apply to overseas issuers that has, or is seeking, a secondary listing on the Exchange, there should be no need to require them to comply with free float requirement.

#### **Question 17**

Do you agree with our proposal to waive the initial free float requirement for overseas issuers that have, or are seeking, a secondary listing on the Exchange (as set out in paragraph 315 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>192</sup> MB Rule 19C.11.

## **D. Minimum Market Value of H Shares**

### **Current requirement**

317. For new applicants that are PRC issuers, the H shares they list on the Exchange must also have an expected market value at the time of listing of at least HK\$50 million<sup>193</sup>.

### **Issue**

318. As set out in Section I.A.1 (see paragraph 47), we propose to clarify that the HK\$125 million (GEM: HK\$45 million) represents market value requirement for securities held by the public<sup>194</sup> to set the minimum market value of shares for which listing is sought on the Exchange. This means that the minimum market value requirement for H shares as set out above (in paragraph 317) will no longer be meaningful.

### **Proposal**

319. We propose to repeal the minimum HK\$50 million requirement for the H shares of new applicants that are PRC issuers<sup>195</sup> (see paragraph 317).

#### **Question 18**

Do you agree with our proposal to repeal the requirement that PRC issuers list H-shares that have an expected market value, at the time of listing, of HK\$50 million (as set out in paragraph 319 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>193</sup> MB Rules 8.09(3) and 19A.13B.

<sup>194</sup> MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

<sup>195</sup> MB Rule 19A.13B.

## **E. Mandatory Public Offer Requirement for GEM issuers**

### **Current requirements**

320. GEM listing applicants are currently required to include an offering to the public of not less than 10% in an IPO<sup>196</sup>.
321. There is no equivalent requirement for Main Board listing applicants under the Listing Rules. The Exchange may not permit a Main Board listing applicant to be listed by way of placing if there is likely to be significant public demand for the securities<sup>197</sup>.

### **Background**

322. The mandatory public offering requirement for GEM listing applicants was introduced in February 2018. Prior to February 2018, GEM listing applicants were able to list by way of placing only.
323. The introduction of a mandatory public offering requirement was to ensure an open market existed in the shares of GEM issuers and that holdings in their shares would not be concentrated among a small group of shareholders<sup>198</sup>. The requirement was introduced to address the concern that the lack of an open market could result in shares not being available to freely trade on the Exchange, which in turn can cause higher price volatility in share prices.<sup>199</sup>.

### **Issues**

324. As set out in Section II.C of Chapter 1 (see paragraph 248), we propose to replace the existing minimum allocation of offer shares to the public subscription tranche with a requirement that a listing applicant may adopt either Mechanism A or Mechanism B. This means that both Main Board and GEM listing applicants (other than Specialist Technology Companies) will be required to adopt either one of the offering mechanisms, if that proposal is supported.

### **Proposal**

325. Subject to the proposals on minimum allocation of offer shares to the public subscription tranche (as set out in paragraph 248 of the Consultation Paper) being adopted, we propose to make a consequential amendment to give GEM listing applicants the choice of public subscription tranche allocation mechanisms as set out in Section II.C of Chapter 1.

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<sup>196</sup> GEM Rule 10.11A.

<sup>197</sup> MB Rule 7.10.

<sup>198</sup> HKEX (December 2017), [Consultation Conclusions on the Review of the Growth Enterprise Market \(GEM\) and Changes to the GEM and Main Board Listing Rules](#), paragraph 80.

<sup>199</sup> Ibid.

## **Rationale**

326. Our proposal aims to provide equal flexibility for GEM issuers to adopt either Mechanism A or Mechanism B for their offering structure as provided to Main Board issuers.
327. Also, whichever mechanism is chosen, at least 5% of offer shares would be allocated to the public subscription tranche, which is consistent with the introduction of a mandatory public offering requirement for GEM listing applicants in February 2018.

### **Question 19**

Subject to the proposals on minimum allocation of offer shares to the public subscription tranche (as set out in paragraph 248 of the Consultation Paper) being adopted, do you agree with the proposed consequential amendment to enable GEM listing applicants to choose either Mechanism A or Mechanism B (as set out in paragraph 325 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

### III. Other Rule Amendments

#### A. Determination of Market Capitalisation for New Listing Applicants

##### Current requirement

328. Where a new applicant has other class(es) of securities apart from the class for which listing is sought on the Exchange, the Rules state that the expected issue price of the securities for which listing is sought must be used as the basis for the calculation the market value of that class and the issuer's other class(es) of securities that are unlisted, or listed on other regulated market(s)<sup>200</sup>.
329. There is no equivalent GEM Listing Rule provision on the basis for determining the market value of other class(es) of securities for a new applicant.

##### Issues

330. The A shares of a PRC issuer listed on a PRC stock exchange can have a different price to that of its H shares listed on the Exchange. This is because of the non-fungibility between A shares and H shares and the different market characteristics of the stock exchanges (such as different market environments and groups of investors). A shares often trade at a higher price than H shares, resulting in an "A/H premium"<sup>201</sup>.
331. The Exchange will aggregate the total value of an issuers' classes of securities to determine the issuer's market capitalisation. If the expected issue price of a PRC issuer's H shares alone is used to calculate the market capitalisation of an A+H issuer, due to the A/H premium, the issuer's market capitalisation will likely be undervalued.
332. In practice, the Exchange calculates the expected market capitalisation of an A+H issuer taking into account the trading price of A shares with respect to the A shares it has in issue, and the expected offer price of H shares to be listed on the Exchange with respect to the H shares it expects to issue.

##### Proposals

333. We propose to amend the Listing Rules<sup>202</sup> to state that for the purpose of calculating the expected market capitalisation of a new applicant, the expected issue price of the shares for which listing is sought will be used as a basis for determining the market value of

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<sup>200</sup> MB Rule 8.09A.

<sup>201</sup> Based on the Hang Seng Connect China AH Premium Index ([link](#)), as of the end of October 2024, the premium of A shares over H shares was, on average, 44.37%. This index tracks the average price difference of A shares over H shares for the most liquid Chinese companies with both A share and H share listings, which are eligible for Northbound and Southbound trading under the Stock Connect programme.

<sup>202</sup> See MB Rules 8.09A and 19A.13D (Note 12 to GEM Rule 11.23, and GEM Rule 25.07C) (as set out in Appendices I and II to this paper).

shares that are unlisted. This will apply to new applicants that have other classes of shares apart from the class for which listing is sought or are PRC issuers.

334. The Exchange will issue guidance on how it will determine the market value of shares of a new applicant which are listed on other regulated market(s) (e.g. for the purpose of determining the market value of A shares listed on a PRC stock exchange).
335. We will also introduce an equivalent GEM Listing Rule provision on the basis for determining the market value of other class(es) of shares for a new applicant to better align the requirements under the Main Board and GEM Listing Rules.

### **Rationale**

336. The above approach will provide clarity for PRC issuers on the basis for calculation of market capitalisation at listing.

#### **Question 20**

20.1 Do you agree with our proposals on the determination of market capitalisation for new applicants that have other classes of shares apart from the class for which listing is sought or are PRC issuers (as set out in paragraph 333 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

20.2 Do you agree with our proposal to introduce an equivalent GEM Listing Rule provision on the basis for determining the market value of other class(es) of shares for a new applicant (as set out in paragraph 335 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

## B. Listing Notice

### Current requirement

337. The Listing Rules set out the scenarios when a formal notice must be published on the date of issue of the listing document<sup>203</sup>. These scenarios include:

- (a) an offer for subscription or an offer for sale;
- (b) a placing by or on behalf of a new applicant where 25% or more (GEM: 20% or more) of the amount placed is made available directly to the general public; and
- (c) a placing by or on behalf of a listed issuer of securities of a class new to listing where 25% or more (GEM: 20% or more) of the amount placed is made available directly to the general public.

### Issue

338. The percentage references in such requirements are no longer applicable.

### Proposal

339. We propose to amend the Listing Rules<sup>204</sup> to require a formal notice to be published on the date of issue of a listing document for offers or placings by or on behalf of a new applicant or listed issuer where any amount placed is made available directly to the general public, without any reference to minimum placing amounts to the general public.

#### Question 21

Do you agree with our proposal to amend the Listing Rules (MB Rule 12.02 (GEM Rule 16.07)) to require issuers to publish a formal notice on the date of issue of a listing document for offers or placings where any amount placed is made available directly to the general public (as set out in paragraph 339 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

<sup>203</sup> MB Rule 12.02 (GEM Rule 16.07).

<sup>204</sup> MB Rule 12.02 (GEM Rule 16.07)

## C. SPAC Warrants and Successor Company's Warrants

### Current requirements

#### *Open market requirements for Successor Company's warrants*

340. Under existing requirements, the Successor Company of a SPAC must meet all open market requirements applicable to a new listing, subject to the modification that the minimum number of 300 shareholders of MB Rule 8.08(2) is modified to 100 Professional Investors at the time of listing of the Successor Company<sup>205</sup>.
341. These open market requirements (as modified)<sup>206</sup> apply to both the shares and warrants of a Successor Company upon the company's listing.

#### *Minimum market value for SPAC Warrants and Successor Company's warrants*

342. In the case of options, warrants or similar rights to subscribe or purchase securities for which listing is sought, the expected market capitalisation at the time of listing must, in the case of both new applicants and listed issuers, be at least HK\$10 million (GEM: HK\$6 million)<sup>207</sup>.
343. This minimum market value requirement applies to SPAC Warrants and Successor Company's warrants at the time of their respective listings.

### Issues

#### *Open market requirements for Successor Company's warrants*

344. A Successor Company typically issues warrants to replace SPAC Warrants upon completion of the De-SPAC Transaction. In such cases, the Successor Company will have no control over the spread of warrant holders at the time of its listing. This will be the result of dealings in SPAC Warrants prior to the completion of the De-SPAC Transaction. The number of warrants in issue may also have been reduced by redemptions (e.g. following a redemption offer, if such a right is provided to the holders of the SPAC Warrants, as part of the De-SPAC Transaction).
345. For this reason, we believe that the Listing Rule open market requirements<sup>208</sup> should not apply to Successor Company's warrants.

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<sup>205</sup> MB Rule 18B.65 and Note to that Rule.

<sup>206</sup> Other open market requirements include the requirement of MB Rule 8.08(1) in respect of public float at listing and the requirement of MB Rule 8.08(3) that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders.

<sup>207</sup> MB Rule 8.09(4) (GEM Rules 11.23(3)(a)(i) and 11.23(3)(b)(i)).

<sup>208</sup> MB Rule 8.08 (as modified by MB Rule 18B.65)



### ***Minimum market value for SPAC Warrants and Successor Company's warrants***

346. SPAC Warrants are issued to subscribers of SPAC Shares at the time of the SPAC's initial listing to compensate them for the lack of return on their investment until a De-SPAC Transaction occurs. They are commonly viewed as a form of "sweetener" to these SPAC IPO investors<sup>209</sup>. These warrants do not have an issue price and are usually only exercisable upon completion of a De-SPAC Transaction and priced "out of the money". Accordingly, it is difficult to determine their market value upon listing.
347. Successor Company's warrants issued to replace SPAC Warrants upon completion of a De-SPAC Transaction are typically issued for free to holders of the SPAC Warrants. The market value of these warrants is beyond the SPAC and the Successor Company's control.
348. For the above reasons, the Exchange believes that SPAC Warrants, and Successor Company's warrants issued to replace SPAC Warrants, should not be subject to any minimum initial market value requirement.

### **Proposals**

349. We propose to amend Chapter 18B of the Main Board Listing Rules so that:
- (a) the open market requirements of MB Rule 8.08 do not apply to Successor Company's warrants; and
  - (b) the minimum market value requirement of MB Rule 8.09(4) does not apply to SPAC Warrants and Successor Company's warrants.

#### **Question 22**

22.1 Do you agree with our proposal to amend Chapter 18B of the Main Board Listing Rules so that the open market requirements of MB Rule 8.08 do not apply to Successor Company's warrants (as set out in paragraph 349(a) of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

22.2 Do you agree with our proposal to amend Chapter 18B of the Main Board Listing Rules so that the minimum market value requirement of MB Rule 8.09(4) does not apply to SPAC Warrants and Successor Company's warrants (as set out in paragraph 349(b) of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>209</sup> HKEX (September 2021), [Consultation Paper on Special Purpose Acquisition Companies](#), paragraph 22.

## D. Allocation of Shares in Specialist Technology Companies

### Current requirement

350. At least 50% of the total number of shares offered in the IPO (excluding any shares to be issued pursuant to the exercise of any over-allotment option) of a Specialist Technology Company must be taken up by independent price setting investors in the placing tranche (whether as Cornerstone Investors or otherwise)<sup>210</sup>.

### Issue

351. In certain circumstances, the total number of shares offered in the IPO may change after publication of a prospectus. For example, the exercise of an offer size adjustment option may increase the total number of shares on offer.

### Proposal

352. We propose to amend MB Rule 18C.08 so that the 50% minimum requirement is to be determined by reference to the total number of shares initially offered in the IPO.

### Rationale

353. Our proposal would mean that the 50% minimum requirement would be determined by reference to the total number of shares on offer as disclosed in the issuer's prospectus, which is prior to the exercise of any over-allotment option or offer size adjustment option<sup>211</sup>. This is in line with the determination of percentage allocation to the bookbuilding placing tranche in our proposal in Section II.B of Chapter 1 (see paragraph 228).

#### Question 23

Do you agree with our proposal to amend MB Rule 18C.08 so that the 50% minimum requirement is to be determined by reference to the total number of shares initially offered in the IPO (as set out in paragraph 352 of the Consultation Paper)?

Please give reasons for your views and any alternative suggestions.

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<sup>210</sup> MB Rule 18C.08.

<sup>211</sup> For the purpose of this requirement, only those shares that are allocated to independent price setting investors in the placing tranche would be counted.

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## DEFINITIONS

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TERM	DEFINITION
“A share issuer”	a PRC issuer that has A shares listed on a PRC stock exchange
“A shares”	domestic shares of a PRC issuer that are listed on a PRC stock exchange
“A+H issuer”	an issuer that is both an A share issuer and an H share issuer
“ADR”	American depositary receipt
“ADS”	American depositary share
“Allocation Cap”	<p>the maximum number of shares permitted under the public subscription tranche after Reallocation and/or PO Over-allocation, as part of the restrictions that would apply under circumstances set out in paragraphs 8 and 9 of Chapter 4.14 of the Guide for New Listing Applicants, which shall be the lesser of:</p> <p>(a) double the initial allocation to the public subscription tranche; and</p> <p>(b) 30% of the total offering (before over-allocation)</p> <p><i>Note.</i> See also Section II.D of Chapter 1 of this paper.</p>
“ASX”	Australian Securities Exchange
“Biotech Company”	as defined in MB Rule 18A.01
“bookbuilding placing tranche”	the part of the placing tranche not taken up by cornerstone investors in an IPO
“CCASS”	the Central Clearing and Settlement System operated by HKSCC
“Consultation Paper”	this Consultation Paper on Proposals to Optimise Price Discovery and Open Market Requirements
“clawback mechanism”	a mechanism to increase the size of the public subscription tranche by reallocating offer shares from the placing tranche to that tranche in the case of an excess demand for offer shares
“close associate”	as defined in MB Rule 1.01 (GEM Rule 1.01)

TERM	DEFINITION
<b>“core connected person” or “CCP”</b>	<p>as defined in MB Rule 1.01 (GEM Rule 1.01), as follows:</p> <p>(a) for a company other than a PRC issuer, or any subsidiary of a PRC issuer, means a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them; and</p> <p>(b) for a PRC issuer, means a director, supervisor, chief executive or substantial shareholder of the PRC issuer or any of its subsidiaries or close associate of any of them</p>
<b>“cornerstone investor”</b>	an investor in an IPO to whom offer shares are preferentially placed with a guaranteed allocation irrespective of the final offer price
<b>“cornerstone placing tranche”</b>	offer of securities in an IPO for subscription by cornerstone investors
<b>“CSRC”</b>	China Securities Regulatory Commission
<b>“De-SPAC Transaction”</b>	as defined in MB Rule 18B.01
<b>“domestic shares”</b>	shares of a PRC issuer which are subscribed for in Renminbi
<b>“equity securities” or “securities”</b>	<p>shares (including preference shares, depositary receipts and treasury shares), convertible equity securities and options, warrants or similar rights to subscribe or purchase shares or convertible equity securities, but excluding interests in a Collective Investment Scheme (as defined in Part I of Schedule 1 to the SFO)</p>
<b>“Existing Pricing Flexibility Mechanism”</b>	<p>a mechanism that, under existing requirements, allows a listing applicant to reduce the offer price by not more than 10% from the indicative offer price or offer price range after the close of the public subscription tranche</p> <p><i>Note.</i> Paragraph 13 of <a href="#">Chapter 4.14</a> of the Guide for New Listing Applicants</p>
<b>“Exchange Participant”</b>	<p>As defined in Rule 1.01, being a person:</p> <p>(a) who, in accordance with the Rules of the Exchange, may trade on or through the Exchange; and</p> <p>(b) whose name is entered in a list, register or roll kept by the Exchange as a person who may trade on or through the Exchange</p>

TERM	DEFINITION
<b>“FCA”</b>	Financial Conduct Authority in the UK
<b>“FINI”</b>	Fast Interface for New Issuance, an online platform operated by HKSCC for admission to trading and, where applicable, the collection and processing of specified information on subscription in and settlement for all initial public offerings
<b>“FINI Information Pack”</b>	FINI Information Pack, as published by the Exchange and amended from time to time
<b>“free float”</b>	means securities of an issuer that are not subject to any disposal restrictions upon listing  <i>Note.</i> See also Section I.C of Chapter 1 of this paper.
<b>“GEM”</b>	GEM operated by the Exchange
<b>“GEM Listing Rules” or “GEM Rules”</b>	Rules Governing the Listing of Securities on GEM
<b>“H share full circulation programme”</b>	a programme launched by the CSRC in November 2019 that enables non-tradeable shares of H share companies to be converted into tradeable shares in Hong Kong, subject to certain approvals and procedures as set out in the Guidelines on Applying for “Full Circulation” of Unlisted Domestic Shares of H-share Listed Companies
<b>“H share issuer”</b>	a PRC issuer that has H shares listed on the Exchange
<b>“H shares”</b>	shares of a PRC issuer that are listed on the Exchange
<b>“HKEX”</b>	Hong Kong Exchanges and Clearing Limited
<b>“HKSCC”</b>	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
<b>“IPO”</b>	initial public offering
<b>“issuer with other share class(es) listed overseas”</b>	an issuer with, apart from the class of shares for which listing is sought on the Exchange, one class of shares or more that are listed on other regulated market(s)
<b>“Listing Rules” or “Rules”</b>	the Main Board and GEM Listing Rules
<b>“LSE”</b>	London Stock Exchange plc

TERM	DEFINITION
<b>“Main Board”</b>	the main board of the Exchange
<b>“Main Board Listing Rules” or “MB Rules”</b>	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
<b>“Mainland China” or “Mainland”</b>	for the purpose of this paper, means the PRC, other than the regions of Hong Kong, Macau and Taiwan
<b>“Maximum Allocation Cap Percentage Threshold”</b>	<p>the absolute threshold (currently 30%), expressed as a percentage of the total offering (before over-allocation), in the second limb of the Allocation Cap</p> <p><i>Note.</i> See paragraph 259(a) in Section II.D of Chapter 1 of this paper.</p>
<b>“Mechanism A”</b>	<p>the proposed offering mechanism that requires a prescribed allocation of offer shares to the public subscription tranche that follows the initial allocation and clawback mechanism requirements for Specialist Technology Companies</p> <p><i>Note.</i> See paragraph 248(a) in Section II.C of Chapter 1 of this paper.</p>
<b>“Mechanism B”</b>	<p>the proposed offering mechanism that requires a minimum initial allocation of 10% of offer shares to the public subscription tranche with no clawback mechanism</p> <p><i>Note.</i> See paragraph 248(b) in Section II.C of Chapter 1 of this paper.</p>
<b>“Minimum 15% Threshold”</b>	<p>(a) in the case of a PRC issuer with shares apart from the H shares for which listing is sought, the requirement of MB Rule 19A.13A (GEM Rule 25.07A) that the issuer’s H shares (for which listing is sought) must represent at least 15% of its total number of issued shares (excluding treasury shares); or</p> <p>(b) in the case of an issuer with one class of securities or more apart from the class of securities for which listing is sought, the requirement of MB Rule 8.08(1)(b) that the class of securities for which listing is sought must not be less than 15% of the issuer’s total number of issued shares (excluding treasury shares)</p> <p><i>Note.</i> See paragraph 156 in Section I.D.1 of Chapter 1 of this paper.</p>

TERM	DEFINITION
“Nasdaq”	The Nasdaq Stock Market LLC
“Northbound”	the trading of Shanghai Stock Exchange securities or Shenzhen Stock Exchange securities by Hong Kong and overseas investors through the Stock Connect programme
“NYSE”	The New York Stock Exchange
“OTC”	over-the-counter
“other listed shares”	for a PRC issuer, means shares of the PRC issuer in the class to which H shares belong that are listed on other regulated market(s), such as A shares
“other prescribed types of issuers”	PRC issuers with other listed shares but not an A+H issuer (i.e. a PRC issuer with other listed shares listed on overseas regulated market(s)), and issuers with other share class(es) listed overseas
“placee”	an investor in an IPO to whom offer shares are placed under the placing tranche
“Placing Guidelines”	the Placing Guidelines for Equity Securities that form Appendix F1 to the Main Board Listing Rules
“placing tranche”	offer of securities in an IPO for subscription by persons selected or approved by the issuer or intermediary which, for the purpose of this paper, comprises the cornerstone placing tranche and the bookbuilding placing tranche
“PO Over-allocation”	over-allocation of offer shares to the public subscription tranche
“PRC”	the People’s Republic of China
“PRC issuer”	as defined in MB Rule 19A.04 (GEM Rule 1.01), which refers to an issuer which is duly incorporated in Mainland China as a joint stock limited company
“PRC stock exchange”	as defined in MB Rule 19A.04 (GEM Rule 1.01), being the Shenzhen Stock Exchange, the Shanghai Stock Exchange, or the Beijing Stock Exchange
“Promoter Share”	as defined in MB Rule 18B.01
“Promoter Warrant”	as defined in MB Rule 18B.01

TERM	DEFINITION
<b>“Proposed Opt-in Arrangement”</b>	<p>an arrangement under which public offer subscribers are provided with an option in their subscription applications to “opt-in” in the event of an offer price adjustment exercised by the listing applicant under the Proposed Pricing Flexibility Mechanism</p> <p><i>Note.</i> See Section III of Chapter 1 of this paper.</p>
<b>“Proposed Pricing Flexibility Mechanism”</b>	<p>the proposed mechanism that allows a listing applicant to adjust the offer price both upward and downward by not more than 10% from the indicative offer price or offer price range after the close of the public subscription tranche</p> <p><i>Note.</i> See Section III of Chapter 1 of this paper.</p>
<b>“public float”</b>	<p>in the context of the Exchange’s requirements, means securities of an issuer that are held in the hands of the public</p> <p><i>Note.</i> The meaning of “the public” is set out in MB Rule 8.24 (Notes 2 and 3 to GEM Rule 11.23). See also Section I.A.2 of Chapter 1 of this paper.</p>
<b>“public subscription tranche”</b>	<p>offer of securities in an IPO for subscription by the public</p>
<b>“Reallocation”</b>	<p>reallocation of offer shares from the placing tranche to the public subscription tranche</p>
<b>“SEHK” or “Exchange”</b>	<p>The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of HKEX</p>
<b>“SFC”</b>	<p>Securities and Futures Commission</p>
<b>“SFC Code of Conduct”</b>	<p>the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission</p>
<b>“SFO”</b>	<p>Securities and Futures Ordinance (Cap. 571)</p>
<b>“SGX”</b>	<p>Singapore Exchange</p>
<b>“Southbound”</b>	<p>the trading of the Exchange’s securities by Mainland investors through the Stock Connect programme</p>
<b>“SPAC”</b>	<p>special purpose acquisition company</p>
<b>“SPAC Share”</b>	<p>as defined in MB Rule 18B.01</p>
<b>“SPAC Warrant”</b>	<p>as defined in MB Rule 18B.01</p>



TERM	DEFINITION
<b>“Specialist Technology Company”</b>	as defined in MB Rule 18C.01
<b>“Stock Connect”</b>	a securities trading and clearing links programme for the establishment of mutual market access between Hong Kong and Shanghai/ Shenzhen
<b>“substantial shareholder”</b>	as defined in MB Rule 1.01 (GEM Rule 1.01), as follows:  in relation to a company means a person (including a holder of depositary receipts) who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the company (excluding voting rights attaching to treasury shares), provided always that a depositary shall not be a substantial shareholder merely by reason of the fact that it is holding shares of the issuer for the benefit of the holders of depositary receipts
<b>“Successor Company”</b>	as defined in MB Rule 18B.01
<b>“Takeovers Code”</b>	the Codes on Takeovers and Mergers and Share Buy-backs
<b>“treasury shares”</b>	shares repurchased and held by an issuer in treasury, as authorised by the laws of the issuer’s place of incorporation and its articles of association or equivalent constitutional documents
<b>“UK”</b>	the United Kingdom
<b>“unlisted shares”</b>	for a PRC issuer, means shares of the PRC issuer in the class to which H shares belong that not listed on any regulated market
<b>“US”</b>	the United States of America
<b>“WVR”</b>	weighted voting right

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# APPENDIX I: PROPOSED AMENDMENTS TO THE MAIN BOARD LISTING RULES

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## Chapter 1

### GENERAL

#### INTERPRETATION

...

1.01 Throughout these Rules, the following terms, except where the context otherwise requires, have the following meanings:

...

**“Cornerstone Investor”** an investor in the initial public offering of a new applicant’s equity securities to whom the equity securities for which listing is sought are preferentially placed, with a guaranteed allocation, irrespective of the final offer price

...

# Chapter 8

## EQUITY SECURITIES

### QUALIFICATIONS FOR LISTING

...

#### Basic Conditions

...

#### Open market requirements

8.08 There must be an open market in the securities for which listing is sought. This will normally mean that for a class of securities new to listing:—

- (1) (a) at least 25% of the issuer's total number of issued shares (excluding treasury shares) must at all times be held by the public; a minimum prescribed percentage of that class of securities must be held by the public at the time of listing, determined by reference to the following table:—

<u>Expected market value of the class of securities at the time of listing</u>	<u>Minimum percentage of such class of securities to be held by the public at the time of listing</u>
<u>Not exceeding HK\$6,000,000,000</u>	<u>25%</u>
<u>Over HK\$6,000,000,000 but not exceeding HK\$30,000,000,000</u>	<u>The higher of: (i) the percentage that would result in the expected market value of such securities held by the public to be HK\$1,500,000,000 at the time of listing; and (ii) 15%</u>
<u>Over HK\$30,000,000,000 but not exceeding HK\$70,000,000,000</u>	<u>The higher of: (i) the percentage that would result in the expected market value of such securities held by the public to be HK\$4,500,000,000 at the time of listing; and (ii) 10%</u>
<u>Over HK\$70,000,000,000</u>	<u>The higher of: (i) the percentage that would result in the expected market value of such securities held by the public to be HK\$7,000,000,000 at the time of listing; and (ii) 5%</u>

Notes: (1) For the purpose of determining the expected market value and the minimum percentage in this rule, only securities in the class for which listing is sought that are in issue at the time of listing (excluding treasury shares) shall be counted.

(2) For the avoidance of doubt, the requirement under rule 8.08(1)(a) does not apply to an issuer where it, apart from the class of shares for which listing is sought, has one class of shares or more that are listed on other regulated market(s) at the time of listing. In such circumstances, rule 8.08(1)(b) would apply.

(b) ~~where an issuer~~ a new applicant has, one class of securities or more apart from the class of securities ~~shares~~ shares for which listing is sought, one class of shares or more that are listed on other regulated market(s) at the time of listing, the total securities of the issuer held by the public (on all regulated market(s) including the Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares (excluding treasury shares). However, the class of securities there must be a portion of the class of shares for which listing is sought must that are held by the public, at the time of listing, that: (i) represents at least 10% not be less than 15% of the issuer's total number of issued shares (excluding treasury shares); or (ii) has, having an expected market value capitalisation at the time of listing of not less than HK\$4253,000,000,000.

...

(d) ~~[Repealed [date]]The Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10,000,000,000, where it is satisfied that the number of securities concerned and the extent of their distribution would enable the market to operate properly with a lower percentage, and on condition that the issuer will make appropriate disclosure of the lower prescribed percentage of public float in the initial listing document and confirm sufficiency of public float in successive annual reports after listing (see rule 13.35). Additionally, a sufficient portion (to be agreed in advance with the Exchange) of any securities intended to be marketed contemporaneously within and outside Hong Kong must normally be offered in Hong Kong;~~

Note: [Repealed [date]]The revised lower prescribed percentage of between 15% and 25% of public float shall not apply retrospectively nor amend arrangements in place before 31 March 2004

(2) ~~for a class of securities new to listing, at the time of listing there must be an adequate spread of holders of the securities to be listed, except where: (a) they are options, warrants or similar rights to subscribe for or purchase shares; (b)~~

~~they are offered to existing holders of a listed issuer's shares by way of bonus issue; and (c) in the 5 years before the date of the announcement of the proposed bonus issue, there are no circumstances to indicate that the issuer's shares may be concentrated in the hands of a few shareholders. The number will depend on the size and nature of the issue, but in all cases there must be at least 300 shareholders; and~~

- (3) ~~not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders, save where: (a) the securities to be listed are options, warrants or similar rights to subscribe or purchase shares; (b) such securities are offered to existing holders of a listed issuer's shares by way of bonus issue; and (c) in the 5 years preceding the date of the announcement on the proposed bonus issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders.~~
- (4) the requirements of rules 8.08(1), (2) and (3) do not apply if all the following conditions are met:
  - (a) the securities to be listed are options, warrants or similar rights to subscribe or purchase shares;
  - (b) such securities are offered to existing holders of a listed issuer's shares by way of bonus issue; and
  - (c) in the 5 years preceding the date of the announcement on the proposed bonus issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders.

#### **Free float**

8.08A There must be sufficient shares for which listing is sought by a new applicant that are held by the public and available for trading upon listing. This will normally mean that a new applicant must have a portion of the class of shares for which listing is sought that are held by the public and not subject to any disposal restrictions (whether under contract, the Listing Rules, applicable laws or otherwise) at the time of listing that:

- (1) represents at least 10% of the total number of issued shares in the class of shares for which listing is sought (excluding treasury shares), with an expected market value at the time of listing of not less than HK\$50,000,000; or
- (2) has an expected market value at the time of listing of not less than HK\$600,000,000.

Notes: (1) *While certain issuers may have shares that are not subject to any disposal restrictions, such shares may otherwise not be available for trading at the time of listing. Shares that have been granted but unvested under a share award scheme (as defined in rule 17.01A) must be excluded from the calculation of free float in this rule, regardless of*

whether they are considered as being “in public hands” (see Note to rule 8.24).

(2) For the purpose of the calculation of free float in this rule, only shares (for which listing is sought) that are in issue at the time of listing (excluding treasury shares) shall be counted.

### **Market value requirements**

- 8.09 (1) The expected market ~~value~~capitalisation at the time of listing of the securities of a new applicant for which listing is sought which are held by the public (see rule 8.24) ~~in accordance with rule 8.08(1)~~ must be at least HK\$125,000,000.
- (2) The expected market capitalisation of a new applicant at the time of listing must be at least HK\$500,000,000 which shall be calculated on the basis of all issued shares (including the class of securities for which listing is sought and such other class(es) of securities, if any, that are either unlisted or listed on other regulated market(s), but excluding treasury shares) of the new applicant at the time of listing.
- (3) The expected market ~~value~~capitalisation at the time of listing of each class of securities for which listing is sought, other than options, warrants or similar rights to subscribe or purchase securities, must, in the case of both new applicants and listed issuers, be at least HK\$50,000,000.
- (4) In the case of a class of options, warrants or similar rights to subscribe or purchase securities for which listing is sought, the expected market ~~value~~capitalisation at the time of listing must, in the case of both new applicants and listed issuers, be at least HK\$10,000,000.
- (5) Further issues of securities of a class already listed are not subject to the limits set out in this rule. In exceptional cases, a lower expected initial market ~~value~~capitalisation may be acceptable where the Exchange is satisfied as to marketability.

*Note: The fact that an applicant is able to satisfy the minimum market capitalisation and value criterion ~~criteria of this rule~~ does not of itself mean that the applicant will be accepted as suitable for listing.*

8.09A For the purpose of calculating the expected market capitalisation of a new applicant at the time of listing, the expected issue price of the securities~~shares~~ for which listing is sought shall be used as a basis for determining the market value of the other class(es) of ~~securities~~shares of the new applicant that are unlisted, ~~or listed on other regulated market(s).~~

*Note: The Exchange may publish guidance on the Exchange’s website, as amended from time to time, as to the calculation of the expected market capitalisation of a new applicant which has shares listed on other regulated market(s).*

...

### **Basis of allocation and “the public”**

...

8.24 The Exchange will not regard any core connected person of the issuer as a member of “the public” or shares held by him as being “in public hands”. In addition, the Exchange will not recognise as a member of “the public”:

- (1) any person whose acquisition of securities has been financed directly or indirectly by the issuer or a core connected person of the issuer;
- (2) any person who is accustomed to take instructions from the issuer or a core connected person of the issuer in relation to the acquisition, disposal, voting or other disposition of securities of the issuer registered in his name or otherwise held by him; and

...

Note: For the purpose of this rule, the Exchange will regard shares that have been granted but unvested under a share award scheme (as defined in rule 17.01A) as being “in public hands”, provided that neither the trustee holding such shares nor the relevant grantee is a core connected person of the issuer.

# ...Chapter 12

## EQUITY SECURITIES

### PUBLICATION REQUIREMENTS

...

#### On Issue

12.02 In the following cases, a formal notice stating the information set out in rule 12.04 must be published in accordance with rule 2.07C on the date of issue of the listing document: —

...

- (2) a placing by or on behalf of a new applicant where ~~any 25 per cent. or more of the~~ amount placed is made available directly to the general public; and
- (3) a placing by or on behalf of a listed issuer of securities of a class new to listing where ~~any 25 per cent. or more of the~~ amount placed is made available directly to the general public.

...

#### After Issue

...

12.08A In the case of an issue under rule 12.08 that includes a placing (in the case of a New Listing), the announcement pursuant to rule 12.08 must also include a brief generic description of the placees. If securities have been placed with different groups of placees, then the announcement must contain a description of each group and the number of shares placed with each group, provided that certain types of placees (as specified in Note 1 to this rule) must be identified on an individually-named basis, with the number of shares placed with each named placee also being disclosed. The announcement must also include: —

...

#### Notes:

- 1 *The purpose of this rule is to enable investors to understand the broad composition of the ownership of the placed shares immediately prior to trading in those shares. The groups of placees which an issuer must identify in the announcement, to the extent applicable, include:—*

...



(d) existing or past employees of the issuer;

...

(f) *the overall coordinator(s), syndicate member(s) (other than the overall coordinator(s)), and/or any distributor(s) (other than the syndicate member(s)) and any connected client(s) (as defined in see Note 2 below) of any of the foregoing parties;*

...

2. *For the purposes of sub-paragraph (f) of Note 1 above, “connected client” in relation to an Exchange Participant is defined in ~~paragraph 13 of Appendix F~~16.*

...

# Chapter 13

## EQUITY SECURITIES

### CONTINUING OBLIGATIONS

...

### GENERAL MATTERS RELEVANT TO THE ISSUER'S SECURITIES

...

#### Minimum prescribed public holdings and other listings

...

13.35 An issuer shall include in its annual report ~~a statement of sufficiency of public float.~~  
information relating to public float and the interests of its shareholders as follows: –

- (1) a statement setting out the percentage of the class of shares listed on the Exchange held by the public as at the end of the relevant financial year; and
- (2) a statement setting out the composition of the ownership of the relevant class of shares listed on the Exchange as at the end of the relevant financial year.

~~The statement~~ References to “the public” in this rule shall have the same meaning as specified in rule 8.24. Such information should be based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of in preparing the annual report.

Note: The Exchange may issue guidance on the Exchange’s website, as amended from time to time, on the particulars required to be disclosed pursuant to this rule.

...

# Chapter 18A

## EQUITY SECURITIES

### BIOTECH COMPANIES

...

#### DEFINITIONS AND INTERPRETATION

18A.01 For the purposes of this Chapter unless otherwise stated or the context otherwise requires the following terms have the meanings set out below: —

...

**“Cornerstone Investor”** ~~An investor in the initial public offering of a new applicant’s shares to whom offer shares are preferentially placed with a guaranteed allocation irrespective of the final offer price, usually for the purpose of signifying that the investor has confidence in the financial condition and future prospects of the new applicant.~~

...

...

#### CORNERSTONE INVESTORS

18A.07: ~~[Repealed [date]]A Biotech Company seeking an initial listing under this chapter must, in addition to meeting the requirements of Rule 8.08(1), ensure that a portion of the total number of its issued shares with a market capitalisation of at least HK\$375 million are held by the public at the time of its initial listing. Any shares allocated to a Cornerstone Investor and any shares subscribed by existing shareholders of the Biotech Company at the time of listing shall not be considered as held by the public for the purpose of this rule 18A.07.~~

...

# Chapter 18B

## EQUITY SECURITIES

### SPECIAL PURPOSE ACQUISITION COMPANIES

...

### CONDITIONS FOR LISTING

...

#### Open Market Requirements

18B.05 Rule 8.08(2) is modified to require that, ~~for each class of securities new to listing by a SPAC,~~ at the time of listing, there must be an adequate spread of holders of the securities to be listed which must, in all cases, be at least 75 Professional Investors, of whom at least 20 must be Institutional Professional Investors and such Institutional Professional Investors must hold at least 75% of the securities to be listed.

*Note: A SPAC must meet all other open market requirements applicable to a new listing, including the requirements of rule 8.08(1) on the prescribed percentage of securities to be that at least 25% of its total number of issued shares (excluding treasury shares) (and 25% of its total number of issued warrants) are at all times held by the public (see rule 8.24) and rule 8.08(3) that not more than 50% of the securities in public hands (see rule 8.24) at the time of listing can be beneficially owned by the three largest public shareholders.*

18B.05A Rule 8.09(4) does not apply to SPAC Warrants.

...

## SUCCESSOR COMPANY

### Open Market in Successor Company's Securities

...

18B.65 The minimum number of 300 shareholders of rule 8.08(2) is modified to 100 Professional Investors at the time of listing of a Successor Company.

Note:

*A Successor Company must meet all other open market requirements applicable to a new listing, including the requirements of rule 8.08(1) on the prescribed percentage of securities to be held by the public (see rule 8.24) that at least 25% of its total number of issued shares (excluding treasury shares) are at all times held by the public (subject to the Exchange's discretion to accept a lower percentage as provided for by rule 8.08(1)(d)) and rule 8.08(3) that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders, provided that the open market requirements of rule 8.08 do not apply to warrants issued by the Successor Company upon the completion of the De-SPAC Transaction to replace any SPAC Warrants.*

#### **Market Value of Successor Company's Warrants**

18B.65A Rule 8.09(4) does not apply to warrants issued by the Successor Company upon the completion of a De-SPAC Transaction to replace any SPAC Warrants.

...

# Chapter 18C

## EQUITY SECURITIES

### SPECIALIST TECHNOLOGY COMPANIES

...

#### DEFINITIONS

...

18C.01 Unless otherwise stated or the context otherwise requires, the following terms have the meanings set out below:

...

~~“Cornerstone Investor”~~ has the meaning in rule 18A.01

...

#### INITIAL PUBLIC OFFERING OF A SPECIALIST TECHNOLOGY COMPANY

##### Allocation of Shares

18C.08 At least 50% of the total number of shares initially offered in the initial public offering (~~excluding any shares to be issued pursuant to the exercise of any over-allotment option~~) of a Specialist Technology Company must be taken up by independent price setting investors in the placing tranche (whether as Cornerstone Investors or otherwise).

*Note: The Exchange will publish guidance on the Exchange’s website, as amended from time to time, on the meaning of independent price setting investors for the purpose of this rule.*

18C.08A Paragraph 3.2 of Practice Note 18 does not apply to the initial public offering of a Specialist Technology Company.

18C.09 Paragraph 4.2 of Practice Note 18 is modified with respect to the allocation of shares in the initial public offering of a Specialist Technology Company, such that a Specialist Technology Company may only adopt the mechanism in sub-paragraph (a) and not sub-paragraph (b). ~~where an initial public offering of a Specialist Technology Company includes both a placing tranche and a public subscription tranche, the minimum allocation of shares to the public subscription tranche shall be as follows:~~

~~(1) an initial allocation of 5% of the shares offered in the initial public offering;~~

~~(2) a clawback mechanism that increases the number of shares to 10% when the total demand for shares in the subscription tranche is 10 times or more but less than 50 times the initial allocation; and~~

~~(3) a clawback mechanism that increases the number of shares to 20% when the total demand for shares in the subscription tranche is 50 times or more the initial allocation.~~

~~Shares may be transferred from the subscription tranche to the placing tranche where there is insufficient demand in the subscription tranche to take up the initial allocation.~~

### **Free Float and Offer Size**

18C.10 ~~[Repealed [date]]~~A Specialist Technology Company seeking an initial listing under this Chapter must, in addition to meeting the requirements of rule 8.08(1), ensure that a portion of the total number of its issued shares listed on the Exchange with a market capitalisation of at least HK\$600,000,000 are not subject to any disposal restrictions (whether under contract, the Listing Rules, applicable laws or otherwise) at the time of listing.

...

# Chapter 19A

## EQUITY SECURITIES

### ISSUERS INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA

...

#### Definitions and Interpretation

19A.04 The following terms, save where the context otherwise requires, have the following meanings:—

...

**“A shares”** shares of a PRC issuer that are listed on a PRC stock exchange

...

**“other listed shares”** shares of a PRC issuer in the class to which H shares belong that are listed on other regulated market(s), such as A shares

...

**“unlisted shares”** shares of a PRC issuer in the class to which H shares belong that are not listed on any regulated market

...

#### Chapter 8 – Qualifications for Listing

19A.13A (1) Rule 8.08 is amended by adding the following provision to sub-paragraph (1)(a):

Where a new applicant is a PRC issuer and has no other listed shares at the time of listing, the prescribed percentage referred to in this rule shall be calculated based on: (a) the numerator being the H shares held by the public at the time of listing; and (b) the denominator being the total number of issued shares in the class to which H shares belong at the time of listing (including any unlisted shares but excluding treasury shares). The reference to the “expected market value of the class of securities” shall mean the expected market value of the shares referred to in the denominator.

*Note: For the avoidance of doubt, the requirement under rule 19A.13A(1) does not apply to a PRC issuer if it has other listed shares at the time of listing. In such circumstances, rule 19A.13A(2) would apply.*

(2) Rule 8.08 is amended by adding the following provision to sub-paragraph (1)(b):



Where a new applicant is a PRC issuer and has other listed shares at the time of listing, the requirement in this rule shall be replaced by a requirement that there must be a portion of the H shares for which listing is sought that are held by the public, at the time of listing, that: (i) represents at least 10% of the issuer's total number of issued shares in the class to which H shares belong (excluding treasury shares); or (ii) has an expected market value of not less than HK\$3,000,000,000.

~~Where a PRC issuer has shares apart from the H shares for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares (excluding treasury shares). However, the issuer's H shares (for which listing is sought) must represent at least 15% of its total number of issued shares (excluding treasury shares), having an expected market capitalisation at the time of listing of not less than HK\$125,000,000.~~

19A.13B ~~[Repealed [date]]For new applicants which are PRC issuers, the reference to "each class of securities for which listing is sought" in rule 8.09(3) shall mean H shares to be listed on the Exchange.~~

19A.13C (1) Where a new applicant is a PRC issuer and has no other listed shares at the time of listing, the prescribed percentage in rule 8.08A shall be calculated based on: (a) the numerator being the H shares held by the public that are not subject to any disposal restrictions (whether under contract, the Listing Rules, applicable laws or otherwise) at the time of listing; and (b) the denominator being the total number of issued shares in the class to which H shares belong at the time of listing (including any unlisted shares but excluding treasury shares).

*Note: For the avoidance of doubt, the requirement under rule 19A.13C(1) does not apply to a PRC issuer if it has other listed shares at the time of listing. In such circumstances, rule 19A.13C(2) would apply.*

(2) Where a new applicant is a PRC issuer and has other listed shares at the time of listing, the references to a "class of shares" and a "class of shares for which listing is sought" in rule 8.08A shall mean H shares.

19A.13D Rule 8.09A is modified by the following provision:

Where a new applicant is a PRC issuer and has shares apart from the H shares, for the purpose of calculating its expected market capitalisation at the time of listing, the expected issue price of the H shares shall be used as a basis for determining the market value of the other shares of the new applicant that are unlisted.

*Note: The Exchange may publish guidance on the Exchange's website, as amended from time to time, as to the calculation of the expected market capitalisation of a new applicant that has shares listed on another regulated market.*

...

## Chapter 14 – Notifiable Transactions

19A.38A Rule 14.07(4) is amended by adding the following provisions:

Where ~~the shares of a PRC issuer (other than H shares) are listed on a PRC stock exchange~~ has other listed shares, the market ~~capitalisation~~ value of its ~~PRC other~~ listed shares is to be determined based on the average closing price of those shares for the 5 days on which trading is conducted on the relevant ~~PRC stock exchange~~ regulated market immediately preceding the transaction.

Where a PRC issuer has issued unlisted shares, the market ~~capitalisation~~ value of its unlisted shares is calculated by reference to the average closing price of its H shares for the 5 business days preceding the transaction.

...

...

# Chapter 19C

## EQUITY SECURITIES

### SECONDARY LISTINGS OF OVERSEAS ISSUERS

...

#### Exceptions to the Rules

- 19C.11 The following rules do not apply to an overseas issuer that has, or is seeking, a secondary listing on the Exchange: 3.17; 3.21 to 3.23; 3.25 to 3.27A; 3.28; 3.29; 4.06; 4.07; Chapter 7; 8.08 (prescribed percentage of public float only); 8.08A; 8.09(4) (exception limited to issues outside the Exchange's markets); 8.18 (exception limited to issues outside the Exchange's markets); 9.11(10)(b); 10.05; 10.06(2)(a) to (c); 10.06(2)(e); 10.06(4); 10.06(5); 10.06A(1); 10.06A(3); 10.06B; 10.07(1); 10.07(2) to (4); 10.08; 13.11 to 13.22; 13.23(1); 13.23(2); 13.25A; 13.27; 13.28; 13.29; 13.31(1); 13.35; 13.36; 13.37; 13.38; 13.39(1) to (5A); 13.39(6) to (7) (exception limited to circumstances other than where a spin-off proposal requires approval by shareholders of the parent); 13.40 to 13.42; 13.44 to 13.45; 13.47; 13.48(2); 13.49; 13.51(1); 13.51(2) (except that each director or member of the overseas issuer's governing body must provide their contact information and personal particulars as soon as possible as required under rule 3.20); 13.51B; 13.51C; 13.52(1)(b) to (d); 13.52(1)(e)(i) to (ii); 13.52(1)(e)(iv) (exception limited to issues outside the Exchange's markets); 13.52(2); 13.67; 13.68; 13.74; 13.80 to 13.87 (exception limited to circumstances other than where a spin-off proposal requires approval by shareholders of the parent); 13.88; 13.89; 13.91; Chapter 14; Chapter 14A; Chapter 15 (exception limited to issues outside the Exchange's markets); Chapter 16 (exception limited to issues outside the Exchange's markets); Chapter 17; Practice Note 4 (exception limited to issues outside the Exchange's markets); Practice Note 15 paragraphs 1 to 3(b) and 3(d) to 5 (exception limited to circumstances where the spun-off assets or businesses are not to be listed on the Exchange's markets and the approval of shareholders of the parent is not required); Appendix C3; Appendix C1; Appendix D2; and Appendix C2.

...

# The Stock Exchange of Hong Kong Limited

## Practice Note 18

to the Rules Governing the Listing of Securities  
(the “Exchange Listing Rules”)

Issued pursuant to rule 1.06 of the Exchange Listing Rules

### INITIAL PUBLIC OFFER OF SECURITIES

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...

#### 2. Introduction

2.1 This practice note sets out certain procedures to be adopted in the allocation of shares in initial public offerings. ~~The Exchange Listing Rules permit a new issue of shares to be offered by way of placing. This practice note also sets out certain procedures to be adopted where an initial public offering involves a placing tranche and public subscription tranche of securities.~~

#### 3. Allocation of Shares

3.1 ...

3.2 At least 50% of the total number of shares initially offered in the initial public offering must be allocated to investors in the placing tranche (other than Cornerstone Investors).

#### 4. Offers Involving a Subscription Tranche

4.1 Issuers are reminded that in accordance with ~~rule~~ paragraph 7.10 of the Exchange Listing Rules, the Exchange may not permit a new applicant to be listed by way of placing if there is likely to be significant public demand for the securities. A key factor the Exchange will consider in reaching such a determination is the size of the offering.

4.2 Where an IPO includes both a placing tranche and a public subscription tranche, an issuer must ensure either the minimum allocation of shares to the subscription tranche shall be as follows:

(a) a prescribed allocation of shares offered in the IPO to the public subscription tranche and a clawback mechanism as follows:

- an initial allocation of 540% of the shares offered in the IPO;

- a clawback mechanism that increases the number of shares to 1030% when the total demand for shares in the subscription tranche is 4510 times but less than 50 times the initial allocation; and
- ~~a clawback mechanism that increases the number of shares to 40% when the total demand for shares in the subscription tranche is 50 times but less than 100 times the initial allocation; and~~
- a clawback mechanism that increases the number of shares to 2050% when the total demand for shares in the subscription tranche is 40050 times or more the initial allocation; or

(b) a minimum initial allocation of 10% of shares offered in the IPO to the public subscription tranche with no clawback mechanism.

...

...

4.5 Investors are free to select whether to apply in the placing tranche or the subscription tranche. Where the ~~placement~~placing tranche and subscription tranche are completed simultaneously an investor may submit an application in one of the pools in the subscription tranche and indicate an interest ~~for~~in shares in the placing tranche. An investor may only receive shares in the placing tranche or the subscription tranche. Investors which have not received shares in the subscription tranche may receive shares in the placing tranche.

4.6 Issuers should reject multiple applications within either pool or between pools. Issuers, their directors, sponsors and underwriters are required to take reasonable steps to identify and reject indications of interest in the placing tranche from investors that received shares in the subscription tranche. ~~Investors which have not received shares in the subscription tranche may receive shares in the placing tranche.~~

...

Hong Kong 26th June, 1998

Revised on [date]

# C. Corporate Governance/ Environmental, Social and Governance

## Appendix C1

### CORPORATE GOVERNANCE CODE

...

#### PART 2 – PRINCIPLES OF GOOD CORPORATE GOVERNANCE, CODE PROVISIONS AND RECOMMENDED BEST PRACTICES

...

#### F. SHAREHOLDERS ENGAGEMENT

##### F.1 Effective communication

...

##### Recommended Best Practices

F.1.2 ...

- (b) indication of important shareholders' dates in the coming financial year; and
- (c) ~~[Repealed [date]]the percentage of public float, based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report; and~~

...

...

## D. Document Content Requirements

### Appendix D1A

#### Contents of Listing Documents

##### Equity Securities

**In the case where listing is sought for equity securities of an issuer no part of whose share capital is already listed**

...

**Information about the securities for which listing is sought and the terms and conditions of their issue and distribution**

14. (1) A statement that application has been or will be made to the Exchange for listing of and permission to deal in the securities; ~~and~~
- (2) A statement that all necessary arrangements have been made enabling the securities to be admitted into CCASS or an appropriate negative statement; and
- (3) A statement of the minimum prescribed percentage of securities to be held by the public pursuant to rule 8.08.

# Appendix D1B

## Contents of Listing Documents

### Equity Securities

**In the case where listing is sought for equity securities of an issuer some part of whose share capital is already listed**

...

#### **Information about the securities for which listing is sought and the terms and conditions of their issue and distribution**

9. (1) A statement that application has been or will be made to the Exchange for listing of and permission to deal in the securities; ~~and~~
- (2) In case of a new class of securities to be listed, a statement that all necessary arrangements have been made enabling the securities to be admitted into CCASS or an appropriate negative statement; and
- (3) In case of a new class of securities to be listed, a statement of the minimum prescribed percentage of securities to be held by the public pursuant to rule 8.08.



# Appendix D2

## DISCLOSURE OF FINANCIAL INFORMATION

...

### Information in annual reports

...

- 34A. A listed issuer shall include the information relating to its public float and the interests of its shareholders under rule 13.35. ~~a statement of sufficiency of public float. The statement should be based on information that is publicly available to the listed issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report.~~

...

# F. Placing Requirements

## Appendix F1

### Placing Guidelines — for — Equity Securities

#### New Applicants

1. ~~[Repealed [date]]The expected initial market capitalisation of the securities to be placed must not be less than HK\$25,000,000 or such other amount as may be fixed from time to time by the Exchange.~~

1A. This Appendix applies equally to every Exchange Participant with whom or through whom the securities of a class new to listing are placed by an overall coordinator, a syndicate member (other than an overall coordinator) or a distributor (other than a syndicate member).

1B. For the purposes of this Appendix:

“Connected client” in relation to an Exchange Participant means any of its clients who is:—

- (1) a partner of such Exchange Participant;
- (2) an employee or non-employee account executive (or any other person with or otherwise acting in similar capacity) of such Exchange Participant;
- (3) a substantial shareholder of such Exchange Participant;
- (4) a director of such Exchange Participant;
- (5) a close associate of any person in (1) to (4) above;
- (6) any of the following persons where his/its account is managed by such Exchange Participant in pursuance of a discretionary managed portfolio agreement:
  - (a) family member (as defined in Chapter 14A) of any person in (1) to (5) above (“**Connected Family Member**”); or
  - (b) a majority-controlled company (as defined in Chapter 14A) held, directly or indirectly, by the Connected Family Members (individually or together), or held by the Connected Family Members together with any person in (1) to (5) above, or any of its subsidiaries; or
- (7) a member of the same group of companies as such Exchange Participant.

“Discretionary managed portfolio” means a fund of investments, the contents of which are kept under review by an Exchange Participant or any member of the group of which such Exchange Participant is a part which has authority to effect or arrange for the effecting of transactions for the fund at its discretion.

“Securities” and “shares” shall include equity securities, interests in a REIT, stapled securities and securities of an investment company (as defined in rule 21.01 of the Exchange Listing Rules).

1C. No allocations will be permitted to:—

- (1) “connected clients” of the overall coordinator(s), any syndicate member(s) (other than the overall coordinator(s)) or any distributor(s) (other than syndicate member(s));
  - (2) directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in rules 10.03 and 10.04 are fulfilled; or
  - (3) nominee companies unless the name of the ultimate beneficiary is disclosed,  
without the prior written consent of the Exchange.
2. ~~[Repealed [date]]The limits set out in paragraph 1 will not normally apply to placings of equity securities by overseas issuers having their primary listing on another stock exchange. The Exchange should, however, be consulted in such cases.~~
3. The overall coordinator(s) must make adequate distribution facilities available, must run the application list and must determine a fair basis for allocating securities when an issue is oversubscribed. In the case of a placing of securities involving bookbuilding activities (as defined under the Code of Conduct) in connection with a New Listing, each overall coordinator will be deemed to have reviewed the analysis generated by FINI on the distribution and concentration of the securities placed and confirmed its accuracy by submitting the ~~declaration~~ separate Marketing and Independence Statements in the form set out in Form D (published in Regulatory Forms)~~in Appendix 5~~ on FINI (see rule 9.11(35)).
4. The securities to be placed must have an adequate spread of holders, the number depending on the size of the placing, ~~but as a guideline there should be not less than three holders for each HK\$1,000,000 of the placing, with a minimum of 100 holders.~~
5. ~~[Repealed[date]]No allocations will be permitted to:—~~
- ~~(1) “connected clients” (as defined in paragraph 13) of the overall coordinator(s), any syndicate member(s) (other than the overall coordinator(s)) or any distributor(s) (other than syndicate member(s));~~
  - ~~(2) directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in rules 10.03 and 10.04 are fulfilled; or~~

- ~~(3) nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Exchange.~~
6. ~~[Repealed [date]]~~ Not more than 25 per cent. of the total placing may be allocated to “discretionary managed portfolios” (as defined in paragraph 13).
  7. Not more than ten per cent. of the total placing may be offered to employees or past employees of the applicant (see rule 10.01).
  8. No overall coordinator, syndicate member (other than an overall coordinator) or distributor (other than a syndicate member) may, under normal circumstances, retain any ~~material amount of the securities being placed for its own~~ proprietary account and those of its group companies, unless the offer is not fully subscribed and the underwriters are required to take up the unsubscribed shares pursuant to the underwriting obligation, or in exceptional circumstances which will be considered on a case-by-case basis. ~~Where there is public demand, no overall coordinator, syndicate member (other than an overall coordinator) or distributor (other than a syndicate member) may retain more than five per cent. of the shares comprising the total placing.~~
  9. ~~[Repealed [date]]~~ These guidelines apply equally to every Exchange Participant with whom or through whom the securities are placed by an overall coordinator, a syndicate member (other than an overall coordinator) or a distributor (other than a syndicate member).
  10. In connection with a New Listing, separate Marketing and Independence Statements in the form set out in Form D (published in Regulatory Forms) ~~in Appendix 5~~ must be submitted to the Exchange on FINI by (a) each overall coordinator; (b) each syndicate member (other than an overall coordinator); (c) any distributor (other than a syndicate member); and (d) any Exchange Participant referred to in paragraph ~~9~~1A above before dealings commence (see rule 9.11(35)).
  11. Dealings in the securities cannot commence until the Exchange has been supplied with and approved (~~on~~ in FINI, in the case of a placing in connection with a New Listing) a list setting out ~~for all the placees, and~~ the required information, including without limitation, in the case of individuals, the names, addresses and identity cards (or if none, passport numbers and the jurisdiction of issuance) (in the case of individuals) and in the case of companies, the names, addresses, jurisdiction of incorporation and the relevant company identification numbers ~~(in the case of companies), along with the names, addresses and identity cards (or if none, passport numbers and the jurisdiction of issuance) of their~~ beneficial owners (in the case of nominee companies) and the amounts taken up by each placee (see rule 9.11(35)). The Exchange reserves the right to require submission of further information (in any other format as it may request) on the placees as it considers necessary for the purpose of establishing the placees’ independence, including without limitation, details of beneficial ownership.
  - 11A. For an applicant seeking to list under Chapter 18C, the placing of securities must comply with rule 18C.08. The list referred to in paragraph 11 must also include the relevant information to demonstrate that the placing of securities is in compliance with rule

18C.08, with identification of each placee who falls within the definition of an independent price setting investor as referred to in that rule. The Exchange reserves the right to require submission of further information on those placees as it may consider necessary for the purpose of establishing the basis on which such placees fall within such definition.

12. ~~[Repealed [date]]~~ Each overall coordinator, syndicate member (other than an overall coordinator), distributor (other than a syndicate member) and Exchange Participant referred to in paragraph 9 must keep a record of their placees for at least three years following completion of the placing. This record should contain the information required in paragraph 11.

13. ~~[Repealed [date]]~~ For the purposes of this Appendix:—

~~“Connected client” in relation to an Exchange Participant means any client of such member who is:—~~

- ~~(1) a partner of such Exchange Participant;~~
- ~~(2) an employee of such Exchange Participant;~~
- ~~(3) where the Exchange Participant is a company,~~
  - ~~(a) any person who is a substantial shareholder of such Exchange Participant;~~
  - ~~or~~
  - ~~(b) a director of such Exchange Participant;~~
- ~~(4) the spouse or infant child or step child of any individual described in (1) to (3) above;~~
- ~~(5) a person in his capacity as trustee of a private or family trust (other than a pension scheme) the beneficiaries of which include any person in (1) to (4) above;~~
- ~~(6) a close relative of any person in (1) to (4) above where his account is managed by such Exchange Participant in pursuance of a discretionary managed portfolio agreement; or~~
- ~~(7) a company which is a member of the same group of companies as such Exchange Participant.~~

~~“Discretionary managed portfolio” means a fund of investments, the contents of which are kept under review by an Exchange Participant or any member of the group of which such Exchange Participant is a part which has authority to effect or arrange for the effecting of transactions for the fund at its discretion.~~

~~“Securities” and “shares” shall include equity securities, interests in a REIT, stapled securities and securities of an investment company (as defined in rule 21.01 of the Exchange Listing Rules).~~

## Listed issuers

14. ~~[Repealed [date]] Placings of securities by listed issuers will be allowed only in the following circumstances:—~~
- ~~(1) where such placing falls within any general mandate given to the directors of the applicant by the shareholders in accordance with rule 13.36; or~~
  - ~~(2) where the placing is specifically authorised by the shareholders of the applicant in general meeting.~~
15. ~~Placings made in either of the above circumstances are required to comply with these guidelines only if the securities are of a class new to listing.~~ Placings of securities of a class new to listing by listed issuers must comply with this Appendix, save for the requirements relating to submission of information on FINI. For any such placing, (i) each overall coordinator; (ii) each syndicate member (other than an overall coordinator); (iii) any distributor (other than a syndicate member); and (iv) any Exchange Participant must duly complete and sign a Marketing and Independence Statement in the form set out in Form D (published in Regulatory Forms), and submit the Marketing and Independence Statement and a placee list setting out the required information in paragraph 11 of this Appendix with the Exchange before dealings commence (see rule 9.23(2)).
16. ~~[Repealed [date]] In the case of a placing by or on behalf of a listed issuer of securities of a class already listed the Exchange may require the issuer to disclose to the Exchange the names and addresses of each of the placees. (see also rule 13.28(7)).~~

## General

17. It must be realised that the above are not necessarily exhaustive and that each case must be considered in the light of its own particular circumstances. In addition, the above criteria may in consultation with the Exchange be amended or extended from time to time in the light of experience. Each placing will be reviewed upon its completion to ensure that the above requirements have been or will be satisfied.
18. For a placing of securities referred to in rule 3A.32, the issuer must ensure a bookbuilding process is carried out to assess demand for the securities.
19. An issuer should document the rationale behind its decision on allocation and pricing, in particular where the decision is contrary to the advice, recommendation(s) and/or guidance of the overall coordinator(s). The overall coordinator(s) shall inform the Exchange if decisions made by the issuer amount to non-compliance with the Exchange Listing Rules related to, among other things, the placing activities conducted by the overall coordinator(s) or the issuer.

...

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# APPENDIX II: PROPOSED AMENDMENTS TO THE GEM LISTING RULES

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## Chapter 1

### GENERAL

#### INTERPRETATION

1.01 Throughout these Rules, the following terms, except where the context otherwise requires, have the following meanings:

...

**“Cornerstone Investor”** an investor in the initial public offering of a new applicant’s equity securities to whom the equity securities for which listing is sought are preferentially placed, with a guaranteed allocation, irrespective of the final offer price

...

**“market capitalisation”** the market value of the entire size of an issuer, which shall include all classes of securities (excluding treasury shares) of the issuer, irrespective of whether any of such class(es) of securities are unlisted, or listed on other regulated market(s)

...

# Chapter 10

## EQUITY SECURITIES

### METHODS OF LISTING

...

#### Placing

...

10.11A A listing by a new applicant must include an offering to the public of not less than 5~~10~~% of all securities offered.

10.12 A placing by or on behalf of a new applicant or by or on behalf of a listed issuer of securities of a class new to listing must be supported by a listing document which must comply with the relevant requirements of Chapter 14 and such a placing must comply with the following specific requirements:—

...

(1A) The guidelines in rules 10.11 to 10.16B apply equally to every Exchange Participant with whom or through whom the securities of a class new to listing are placed by an overall coordinator, a syndicate member (other than an overall coordinator) or a distributor (other than a syndicate member).

For the purposes of rules 10.11 to 10.16B:—

“Connected client” in relation to an Exchange Participant means any of its client who is:—

- (a) a partner of such Exchange Participant;
- (b) an employee or non-employee account executive (or any other person with or otherwise acting in similar capacity) of such Exchange Participant;
- (c) a substantial shareholder of such Exchange Participant;
- (d) a director of such Exchange Participant;
- (e) a close associate of any person in (a) to (d) above;
- (f) any of the following persons where his/its account is managed by such Exchange Participant in pursuance of a discretionary managed portfolio agreement:
  - (i) a family member (as defined in Chapter 20) of any person in (a) to (e) above (“**Connected Family Member**”); or



(ii) a majority-controlled company (as defined in Chapter 20) held, directly or indirectly, by the Connected Family Members (individually or together), or held by the Connected Family Members together with any person in (a) to (e) above, or any of its subsidiaries; or

(g) a member of the same group of companies as such Exchange Participant.

Notes:

1. “Discretionary managed portfolio” means a fund of investments, the contents of which are kept under review by an Exchange Participant or any member of the group of which such Exchange Participant is a part which has authority to effect or arrange for the effecting of transactions for the fund at its discretion.

2. “Securities” and “shares” shall include equity securities.

(1AA) No allocations to the following persons will be permitted without the prior written consent of the Exchange:

(a) “connected clients” ~~(as defined in Note 2 of rule 10.12(4))~~ of the overall coordinator(s), any syndicate member(s) (other than the overall coordinator(s)) or any distributor(s) (other than syndicate member(s));

...

(1B) The overall coordinator(s) must make adequate distribution facilities available, must run the application list and must determine a fair basis for allocating securities when an issue is oversubscribed. In the case of a placing of securities involving bookbuilding activities (as defined under the Code of Conduct) in connection with a New Listing, each overall coordinator will be deemed to have reviewed the analysis generated by FINI on the distribution and concentration of the securities placed and confirmed its accuracy by submitting the declarationseparate Marketing and Independence Statements in the form set out in Form D (published in Regulatory Forms) in Appendix 5 on FINI (see rule 12.26(6)).

(1C) Not more than ten per cent. of the total placing may be offered to employees or past employees of the applicant (see rule 13.02(2)).

...

(4) The announcement of the results of the placing required pursuant to rule 16.16 must include a brief generic description of the placees. If securities have been placed with different groups of placees, then the announcement must contain a description of each group and the number of shares placed with each group, provided that certain types of placee (as specified in Note 1 to this rule) must be identified on an individually-named basis, with the number of shares placed with each named placee also being disclosed. ~~In the case of a New Listing~~

~~effected by way of a placing or which included a placing tranche, t~~The announcement must also include information on:—

...

Notes: 1 *The purpose of this rule is to enable shareholders and investors to understand the broad composition of the ownership of the placed shares immediately prior to trading in those shares. The groups of placees which the issuer must identify in the announcement, to the extent applicable, include:—*

...

(g) *the overall coordinator(s), syndicate member(s) (other than the overall coordinator(s)), and/or any distributor(s) (other than the syndicate member(s)) and any connected clients (as defined in Note 2 below see rule 10.12(1A)) of any of the foregoing parties;*

(h) ~~*[Repealed [date]]customers or clients of the issuer;*~~

(i) ~~*[Repealed [date]]suppliers to the issuer; and*~~

(j) *the underwriters (if any) and their close associates, if different from (f) or (g) above; and-*

(k) *other groups of placees which may be required by the Exchange (e.g. customers or suppliers of the issuer).*

...

2 ~~*[Repealed [date]]For the purposes of sub-paragraph (g) of Note 1 above “connected client” in relation to an Exchange Participant means any client of such Exchange Participant who is:—*~~

~~*(a) a partner of such Exchange Participant;*~~

~~*(b) an employee of such Exchange Participant;*~~

~~*(c) where the Exchange Participant is a company,*~~

~~*(i) any person who is a substantial shareholder of such Exchange Participant; or*~~

~~*(ii) a director of such Exchange Participant;*~~

~~*(d) the spouse or infant child or step child of any individual described in (a) to (c) above;*~~

- ~~(e) a person in his capacity as trustee of a private or family trust (other than a pension scheme) the beneficiaries of which include any person in (a) to (d) above;~~
- ~~(f) a close relative of any person in (a) to (d) above where his account is managed by such Exchange Participant in pursuance of a discretionary managed portfolio agreement; or~~
- ~~(g) a company which is a member of the same group of companies as such Exchange Participant.~~

(4A) No overall coordinator, syndicate member (other than an overall coordinator) or distributor (other than a syndicate member) may, under normal circumstances, retain any ~~material amount of the securities~~ being placed for its ~~own proprietary~~ account and those of its group companies, unless the offer is not fully subscribed and the underwriters are required to take up the unsubscribed shares pursuant to the underwriting obligation, or in exceptional circumstances which will be considered on a case-by-case basis.

(5) Dealings in the securities cannot commence until the Exchange has been supplied with and approved ~~(an) FINI~~ in the case of a placing in connection with a New Listing) a list setting out ~~for all the placees, and~~ the required information, including without limitation, in the case of individuals, the names, addresses and identity cards (or if none, passport numbers and the jurisdiction of issuance) ~~(in the case of individuals) and~~ in the case of companies, the names, addresses, jurisdiction of incorporation and the relevant company identification numbers ~~(in the case of companies),~~ along with the names, addresses and identity cards (or if none, passport numbers and the jurisdiction of issuance) of their beneficial owners of the securities ~~(in the case of nominee companies) and~~ the amounts taken up by each placee. The Exchange reserves the right to require submission of further information (in any other format as it may request) on the placees as it considers necessary for the purpose of establishing the placees' independence, including without limitation, details of beneficial ownership.

...

(7) ~~[Repealed [date]] Each overall coordinator, syndicate member (other than an overall coordinator), distributor (other than a syndicate member) and Exchange Participant referred to in sub-paragraph (6) above must keep a record of their placees for at least 3 years following completion of the placing. This record should contain the information referred to in sub-paragraph (5) above.~~

...

10.13 ~~[Repealed [date]] Placings of securities by a listed issuer will be allowed only in the following circumstances:—~~

- (1) ~~where the placing falls within any general mandate given to the directors of the listed issuer by the shareholders in accordance with rule 17.41(2); or~~
- (2) ~~where the placing is specifically authorised by the shareholders of the listed issuer in general meeting (“specific mandate placing”).~~

10.14 ~~Placings of securities of a class new to listing by a listed issuer made in either of the circumstances set out in rule 10.13 are required to must comply with the requirements of rule 10.12, save for the requirements relating to submission of information on FINI. For any such placing, (i) each overall coordinator; (ii) each syndicate member (other than an overall coordinator); (iii) any distributor (other than a syndicate member); and (iv) any Exchange Participant must duly complete and sign a Marketing and Independence Statement in the form set out in Form D (published in Regulatory Forms) and submit the Marketing and Independence Statement and a placee list setting out the required information in rule 10.12(5) with the Exchange before dealings commence (see rule 12.27(6)) (excluding sub-paragraphs (2), (6) and (7) in the case of a placing of securities of a class already listed). Specific mandate placings are also required to comply with rule 10.44A.~~

...

10.15A It must be realised that rules 10.11 to 10.15 above are not necessarily exhaustive and that each case must be considered in the light of its own particular circumstances. In addition, the above criteria may in consultation with the Exchange be amended or extended from time to time in the light of experience. Each placing will be reviewed upon its completion to ensure that the above requirements have been or will be satisfied.

...

# Chapter 11

## EQUITY SECURITIES

### METHODS OF LISTING

...

11.23 There must be an open market in the securities for which listing is sought. This will normally mean that:

...

(2) with regard to all equity securities for which a listing is sought, except those specified in sub-paragraphs (3) and (4):—

(a) the market ~~capitalisation~~value of such equity securities of a new applicant for which listing is sought (determined as at the time of listing) in the hands of the public must be at least HK\$45,000,000; and

...

(3) with regard to each class of options, warrants or similar rights to subscribe or purchase shares ("warrants") for which a listing is sought:—

(a) in the case of a new applicant:—

(i) the market ~~capitalisation~~value of such class of warrants (determined as at the time of listing) must be at least HK\$6,000,000; and

(ii) there must, as at the time of listing, be an adequate spread of holders of such warrants. The number will depend on the size and nature of the issue but, as a guideline, the warrants in the hands of the public should, as at the time of listing, be held among at least 100 persons (including those whose warrants are held through CCASS); and

(b) in the case of a listed issuer:—

(i) the market ~~capitalisation~~value of such class of warrants (determined as at the time of listing) must be at least HK\$6,000,000; and

(ii) ~~save where: (a) such warrants are offered to existing holders of the issuer's shares by way of bonus issue; and (b) in the 5 years preceding the date of the announcement on the proposed bonus~~

issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders, there must, as at the time of listing be an adequate spread of holders of such warrants. The number will depend on the size and nature of the issue but, as a guideline, the warrants in the hands of the public should, as at the time of listing, be held among at least 100 persons (including those whose warrants are held through CCASS);

...

- (6) the expected total market capitalisation of a new applicant at the time of listing must be at least HK\$150,000,000 which shall be calculated on the basis of all issued shares (including the class of securities for which listing is sought and such other class(es) of securities, if any, that are either unlisted or listed on other regulated market(s), but excluding treasury shares) of the new applicant at the time of listing;
- (7) subject to rule 11.23(10) below, for a class of securities new to listing, at least 25% of the issuer's total number of issued shares (excluding treasury shares) must at all times be held by the public; a minimum prescribed percentage of that class of securities must be held by the public at the time of listing, determined by reference to the following table:-

<b><u>Expected market value of the class of securities at the time of listing</u></b>	<b><u>Minimum percentage of such class of securities to be held by the public at the time of listing</u></b>
<u>Not exceeding HK\$6,000,000,000</u>	<u>25%</u>
<u>Over HK\$6,000,000,000 but not exceeding HK\$30,000,000,000</u>	<u>The higher of: (i) the percentage that would result in the expected market value of such securities held by the public to be HK\$1,500,000,000 at the time of listing; and (ii) 15%</u>
<u>Over HK\$30,000,000,000 but not exceeding HK\$70,000,000,000</u>	<u>The higher of: (i) the percentage that would result in the expected market value of such securities held by the public to be HK\$4,500,000,000 at the time of listing; and (ii) 10%</u>
<u>Over HK\$70,000,000,000</u>	<u>The higher of: (i) the percentage that would result in the expected market value of such securities held by the public to be HK\$7,000,000,000 at the time of listing; and (ii) 5%</u>

- (8) for a class of securities new to listing, not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders, ~~save where: (a) the securities to be listed are options, warrants or similar rights to subscribe or purchase shares; (b) such securities are offered to existing holders of a listed issuer's shares by way of bonus issue; and (c) in the 5 years preceding the date of the announcement on the proposed bonus issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders; and~~
- (9) where an issuer a new applicant has ~~one class of securities or more~~ apart from the class of securities shares for which listing is sought, one class of shares or more that are listed on other regulated market(s) at the time of listing, the total securities of the issuer held by the public (on all regulated market(s) including the Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares (excluding treasury shares). However, ~~the class of securities there must be a portion of the class of shares~~ for which listing is sought that are held by the public, at the time of listing, that: (i) represents at least 10% ~~must not be less than 15%~~ of the issuer's total number of issued shares (excluding treasury shares); ~~or (ii) has, having an expected market value capitalisation at the time of listing of not less than HK\$453,000,000,000.;~~
- (10) ~~[Repealed [date]]~~ the Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10,000,000,000, where it is satisfied that the number of securities concerned and the extent of their distribution would enable the market to operate properly with a lower percentage, and on condition that the issuer will make appropriate disclosure of the lower prescribed percentage of public float in the initial listing document and confirm sufficiency of public float in successive annual reports after listing (see rule 17.38A). Additionally, a sufficient portion (to be agreed in advance with the Exchange) of any securities intended to be marketed contemporaneously within and outside Hong Kong must normally be offered in Hong Kong; and
- (11) ~~[Repealed [date]]~~ notwithstanding the requirement that the minimum prescribed percentage of securities must at all times remain in public hands, the Exchange may consider granting a temporary waiver to an issuer which is the subject of a general offer under the Takeovers Code (including a privatisation offer), for a reasonable period after the close of the general offer to restore the percentage. The issuer must restore the minimum percentage of securities in public hands immediately after the expiration of the waiver, if granted.

Notes: ...

3 The Exchange will also not recognise as a member of "the public":

- (a) any person whose acquisition of securities has been financed directly or indirectly by the issuer or a person referred to in note 2 above;

(b) any person who is accustomed to taking instructions from the issuer or a person referred to in note 2 above in relation to the acquisition, disposal, voting or other disposition of securities of the issuer registered in his name or otherwise held by him; and

(c) ...

For the purpose of this note, the Exchange will regard shares that have been granted but unvested under a share award scheme (as defined in rule 23.01A) as being "in public hands", provided that neither the trustee holding such shares nor the relevant grantee is a core connected persons of the issuer.

...

8 [Repealed [date]]GEM listed issuers that have been allowed a lower minimum prescribed percentage of public float (including those which have been granted a waiver under repealed GEM Rule 11.23(5)) have a grace period of three years to comply with the public float requirement under rule 11.23. Accordingly, all GEM issuers must comply with the public float requirement by no later than 30 June 2011.

9 For the purpose of determining the expected market value and the minimum percentage in sub-rule (7), only securities in the class for which listing is sought that are in issue at the time of listing (excluding treasury shares) shall be counted.

10 For the avoidance of doubt, the requirement under sub-rule (7) does not apply to an issuer where it, apart from the class of shares for which listing is sought, has one class of shares or more that are listed on other regulated market(s) at the time of listing. In such circumstances, sub-rule (9) would apply.

11 The requirements of sub-rules (3)(b)(ii), (7) and (8), do not apply if all of the following conditions are met:

(a) the securities to be listed are options, warrants or similar rights to subscribe or purchase shares;

(b) such securities are offered to existing holders of a listed issuer's shares by way of bonus issue; and

(c) in the 5 years preceding the date of the announcement on the proposed bonus issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders.



12 For the purpose of calculating the expected market capitalisation of a new applicant at the time of listing, the expected issue price of the shares for which listing is sought shall be used as a basis for determining the market value of the other class(es) of shares of the new applicant that are unlisted.

The Exchange may publish guidance on the Exchange's website, as amended from time to time, as to the calculation of the expected market capitalisation of a new applicant which has shares listed on other regulated market(s).

13 *The fact that an applicant is able to satisfy the minimum market capitalisation and value criteria of this rule does not of itself mean that the applicant will be accepted as suitable for listing.*

11.23A There must be sufficient shares for which listing is sought by a new applicant that are held by the public and available for trading upon listing. This will normally mean that a new applicant must have a portion of the class of shares for which listing is sought that are held by the public and not subject to any disposal restrictions (whether under contract, the Listing Rules, applicable laws or otherwise) at the time of listing that:

- (1) represents at least 10% of the total number of issued shares in the class of shares for which listing is sought (excluding treasury shares), with an expected market value at the time of listing of not less than HK\$15,000,000; or
- (2) has an expected market value at the time of listing of not less than HK\$600,000,000.

Notes: (1) While certain issuers may have shares that are not subject to any disposal restrictions, such shares may otherwise not be available for trading at the time of listing. Shares that have been granted but unvested under a share award scheme (as defined in rule 23.01A) must be excluded from the calculation of free float in this rule, regardless of whether they are considered as being "in public hands" (see Note 3 to rule 11.23).

(2) For the purpose of the calculation of free float in this rule, only shares (for which listing is sought) that are in issue at the time of listing (excluding treasury shares) shall be counted.

...

# Chapter 16

## EQUITY SECURITIES

### PUBLICATION REQUIREMENTS

...

#### Formal notice on issue

16.07 ...

- (2) a placing by or on behalf of a new applicant where ~~any 20% or more of the~~ amount placed is made available directly to the general public; or
- (3) a placing by or on behalf of a listed issuer of securities of a class new to listing where ~~any 20% or more of the~~ amount placed is made available directly to the general public.

...

# Chapter 17

## EQUITY SECURITIES

### CONTINUING OBLIGATIONS

...

#### General matters relevant to the issuer's securities

...

#### *Sufficiency of public float*

17.38A An issuer shall include in its annual report ~~a statement of sufficiency of public float. information relating to public float and the interests of its shareholders as follows: -~~

- (1) a statement setting out the percentage of the class of shares listed on the Exchange held by the public as at the end of the relevant financial year; and
- (2) a statement setting out the composition of the ownership of the relevant class of shares listed on the Exchange as at the end of the relevant financial year.

~~The statement~~ References to "the public" in this rule shall have the same meaning as specified in rule 11.23. Such information should be based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of in preparing the annual report.

*Notes: (1) ~~[Repealed [date]]GEM listed issuers that have been allowed a lower minimum prescribed percentage of public float (including those which have been granted a waiver under repealed GEM Rule 11.23(5)) have a grace period of three years to comply with the public float requirement under rule 11.23. Accordingly, all GEM issuers must comply with the public float requirement by no later than 30 June 2011.~~*

- (2) The Exchange may issue guidance on the Exchange's website, as amended from time to time, on the particulars required to be disclosed pursuant to this rule.

...

# Chapter 18

## EQUITY SECURITIES

### FINANCIAL INFORMATION

...

- 18.08B An issuer shall include in its annual report a ~~statement of sufficiency of public float~~ with the information relating to its public float and the interests of its shareholders as ~~required~~ under rule 17.38A.

...

# Chapter 25

## EQUITY SECURITIES

### ISSUERS INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA

...

#### Definitions

25.04 In this Chapter

...

(2) the term "PRC Governmental Body" means:—

...

(c) PRC Local Governments immediately under the PRC Provincial-level Governments, including prefectures (區), municipalities (市) and counties (縣), together with their respective administrative arms, agencies and institutions that is not engaging in commercial business or operating another commercial entity;

...

(3) for a PRC issuer,

(a) the term "A shares" means shares of a PRC issuer that are listed on a PRC stock exchange;

(b) the term "other listed shares" means shares of a PRC issuer in the class to which H shares belong that are listed on other regulated market(s), such as A shares; and

(c) the term "unlisted shares" means shares of a PRC issuer in the class to which H shares belong that are not listed on any regulated market.

...

#### Chapter 11 – Qualifications for Listing

...

25.07A (1) Rule 11.23 is amended by adding the following provision to sub-paragraph (7):

Where a new applicant is a PRC issuer and has no other listed shares at the time of listing, the prescribed percentage referred to in this rule shall be

calculated based on: (a) the numerator being the H shares held by the public at the time of listing; and (b) the denominator being the total number of issued shares in the class to which H shares belong at the time of listing (including any unlisted shares but excluding treasury shares). The reference to the “expected market value of the class of securities” shall mean the expected market value of the shares referred to in the denominator.

*Note: For the avoidance of doubt, the requirement under rule 25.07A(1) does not apply to a PRC issuer if it has other listed shares at the time of listing. In such circumstances, rule 25.07A(2) would apply.*

(2) Rule 11.23 is amended by adding the following provision to sub-paragraph (9):

Where a new applicant is a PRC issuer and has other listed shares at the time of listing, the requirement in this rule shall be replaced by a requirement that there must be a portion of the H shares for which listing is sought that are held by the public, at the time of listing, that: (i) represents at least 10% of the issuer’s total number of issued shares in the class to which H shares belong (excluding treasury shares); or (ii) has an expected market value of not less than HK\$3,000,000,000.

~~Where a PRC issuer has shares apart from the H shares for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Exchange) at the time of listing must be at least 25% of the issuer’s total number of issued shares (excluding treasury shares). However, the issuer’s H shares (for which listing is sought) must represent at least 15% of its total number of issued shares (excluding treasury shares), having an expected market capitalisation at the time of listing of not less than HK\$45,000,000.~~

25.07B (1) Where a new applicant is a PRC issuer and has no other listed shares at the time of listing, the prescribed percentage in rule 11.23A shall be calculated based on: (a) the numerator being the H shares held by the public that are not subject to any disposal restrictions (whether under contract, the Listing Rules, applicable laws or otherwise) at the time of listing; and (b) the denominator being the total number of issued shares in the class to which H shares belong at the time of listing (including any unlisted shares but excluding treasury shares).

*Note: For the avoidance of doubt, the requirement under rule 25.07B(1) does not apply to a PRC issuer if it has other listed shares at the time of listing. In such circumstances, rule 25.07B(2) would apply.*

(2) Where a new applicant is a PRC issuer and has other listed shares at the time of listing, the references to a “class of shares” and a “class of shares for which listing is sought” in rule 11.23A shall mean H shares.

25.07C Note 12 to Rule 11.23 is modified by the following provision:

Where a new applicant is a PRC issuer and has shares apart from the H shares, for the purpose of calculating its expected market capitalisation at the time of listing, the expected issue price of the H shares shall be used as a basis for determining the market value of the other shares of the new applicant that are unlisted.

Note: The Exchange may publish guidance on the Exchange's website, as amended from time to time, as to the calculation of the expected market capitalisation of a new applicant that has shares listed on another regulated market.

...

## **Chapter 19 – Notifiable Transactions**

25.34C Rule 19.07(4) is amended by adding the following provisions:

Where the shares of a PRC issuer (~~other than H shares~~) ~~are listed on a PRC stock exchange~~ has other listed shares, the market ~~capitalisation~~ value of its ~~PRC other~~ listed shares is to be determined based on the average closing price of those shares for the 5 days on which trading is conducted on the relevant ~~PRC stock exchange~~ regulated market immediately preceding the transaction.

Where a PRC issuer has issued unlisted shares, the market ~~capitalisation~~ value of its unlisted shares is calculated by reference to the average closing price of its H shares for the 5 business days preceding the transaction.

...

# The Stock Exchange of Hong Kong Limited

## Practice Note 6

to the Rules Governing the Listing of Securities on GEM  
of The Stock Exchange of Hong Kong Limited  
(the “GEM Listing Rules”)

Issued pursuant to rule 1.07 of the GEM Listing Rules

### Initial Public Offer of Securities

...

#### Allocation of shares

3. ...

3A. At least 50% of the total number of shares initially offered in the initial public offering must be allocated to investors in the placing tranche (other than Cornerstone Investors).

#### Offers involving a subscription tranche

4. Where an IPO includes both a placing and a public subscription tranche, an issuer must ensure either the minimum allocation of shares to the subscription tranche shall be as follows:

(a) a prescribed allocation of shares offered in the IPO to the public subscription tranche and a clawback mechanism as follows:

- an initial allocation of not less than 5~~10~~% of the shares offered in the IPO;
- a clawback mechanism that increases the number of shares to 10~~30~~% when the total demand for shares in the subscription tranche is 4~~5~~10 times but less than 50 times the initial allocation; and
- ~~a clawback mechanism that increases the number of shares to 40% when the total demand for shares in the subscription tranche is 50 times but less than 100 times the initial allocation; and~~
- a clawback mechanism that increases the number of shares to 20~~50~~% when the total demand for shares in the subscription tranche 5~~0~~4~~00~~ times or more of the initial allocation; or;

(b) a minimum initial allocation of 10% of shares offered in the IPO to the public subscription tranche with no clawback mechanism.

...

...



7. Investors are free to select whether to apply in the placing tranche or the subscription tranche. Where the placing tranche and the subscription tranche are completed simultaneously an investor may submit an application in one of the pools in the subscription tranche and indicate an interest ~~for~~in shares in the placing tranche. An investor may only receive shares in the placing tranche or the subscription tranche. Investors which have not received shares in the subscription tranche may receive shares in the placing tranche.
8. Issuers should reject multiple applications within either pool or between pools. Issuers, their directors, sponsors and underwriters are required to take reasonable steps to identify and reject indications of interest in the placing tranche from investors that received shares in the subscription tranche. ~~Investors which have not received shares in the subscription tranche may receive shares in the placing tranche.~~

...

# C. Corporate Governance/ Environmental, Social and Governance

## Appendix C1

### CORPORATE GOVERNANCE CODE

...

#### PART 2 – PRINCIPLES OF GOOD CORPORATE GOVERNANCE, CODE PROVISIONS AND RECOMMENDED BEST PRACTICES

...

#### F. SHAREHOLDERS ENGAGEMENT

##### F.1 Effective communication

...

##### Recommended Best Practices

F.1.2 ...

- (b) indication of important shareholders' dates in the coming financial year; and
- (c) ~~[Repealed [date]]the percentage of public float, based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report; and~~

...

...

## **D. Document Content Requirements**

### **Appendix D1A**

#### **CONTENTS OF LISTING DOCUMENTS**

##### **Equity Securities**

**In the case where listing is sought for equity securities of an issuer no part of whose share capital is already listed**

...

**Information about the securities for which listing is sought and the terms and conditions of their issue and distribution**

14. ...

- (4) A statement of the minimum prescribed percentage ~~applicable to the~~ of securities to be held by the public pursuant to rule 11.23. ~~If the minimum prescribed percentage cannot be determined as at the date of the document, an indicative range should be provided.~~

...

# Appendix D1B

## CONTENTS OF LISTING DOCUMENTS

### Equity Securities

**In the case where listing is sought for equity securities of an issuer some part of whose share capital is already listed**

...

**Information about the securities for which listing is sought and the terms and conditions of their issue and distribution**

9. ...

- (4) In case of a new class of securities to be listed, a statement of the minimum prescribed percentage applicable to that class of securities to be held by the public pursuant to rule 11.23. ~~If the minimum prescribed percentage cannot be determined as at the date of the document, an indicative range should be provided.~~

## APPENDIX III: MAPPING OF PROPOSALS TO REFERENCES TO THE LISTING RULES

1. This appendix contains mapping tables setting out our proposals and the corresponding references to the Listing Rules. The proposed amendments to the Rules are set out in Appendices I and II to the Consultation Paper.
2. Table 15 sets out key proposals contained in Chapter 1 of the Consultation Paper, and Table 16 sets out other Rule amendments contained in Chapter 2 of the Consultation Paper.

**Table 15: Key proposals contained in Chapter 1 of the Consultation Paper**

Subject (Section Reference in Chapter 1)	Listing Rules	
	Main Board	GEM
<b>I. Open Market Requirements</b>		
Basis for calculation of public float percentage (§ I.A.1)	Amend Rule 8.09(1)	Amend Rule 11.23(2)(a)
Meaning of “the public” (§ I.A.2)	Amend Rule 8.24	Amend Note 3 to Rule 11.23
Initial public float thresholds (§ I.B.1)	Amend Rule 8.08(1)(a)	Amend Rule 11.23(7)
	Amend Rules 8.08(1)(b) and 19A.13A	Amend Rules 11.23(9) and 25.07A
	Repeal Rule 8.08(1)(d)	Repeal Rule 11.23(10)

Subject (Section Reference in Chapter 1)	Listing Rules	
	Main Board	GEM
	Amend Note to Rule 18B.05 and Note to Rule 18B.65	(Nil)
Ongoing public float disclosure (§ I.B.3)	Amend Rule 13.35	Amend Rule 17.38A
	Repeal RBP F.1.2(c) of Appendix C1	Repeal RBP F.1.2(c) of Appendix C1
	Amend paragraph 34A of Appendix D2	Amend Rule 18.08B
Initial free float requirement (§ I.C)	Add Rules 8.08A and 19A.13C	Add Rules 11.23A and 25.07B
	Amend Rule 18A.01	(Nil)
	Repeal Rules 18A.07 and 18C.10	(Nil)
Initial minimum percentage and market capitalisation of listed shares for A+H issuers and other prescribed types of issuers (§ I.D.1)	Amend Rules 8.08(1)(b) and 19A.13A	Amend Rules 11.23(9) and 25.07A
<b>II. IPO Allocation</b>		
Regulatory lock-up on cornerstone investment (§ II.A)	(Nil)	(Nil)

Subject (Section Reference in Chapter 1)	Listing Rules	
	Main Board	GEM
Allocation to the placing tranche (§ II.B)	Amend Rule 1.01	Amend Rule 1.01
	Add Rule 18C.08A	(Nil)
	Amend paragraph 2 of Practice Note 18	(Nil)
	Add paragraph 3.2 to Practice Note 18	Add paragraph 3A to Practice Note 6
	Amend paragraph 4 of Appendix F1	(Nil)
Allocation to the public subscription tranche (§ II.C)	Amend Rule 18C.09	(Nil)
	Amend paragraphs 4.2, 4.5 and 4.6 of Practice Note 18	Amend paragraphs 4, 7 and 8 of Practice Note 6
Restrictions on Reallocation and PO Over-subscription (§ II.D)	(Nil)	(Nil)
<b>III. Pricing Flexibility Mechanism</b>	(Nil)	(Nil)

**Table 16: Other Rule amendments contained in Chapter 2 of the Consultation Paper**

Subject (Section Reference in Chapter 2)	Listing Rules	
	Main Board	GEM
<b>I. Placing Guidelines</b>	Amend Notes to Rule 12.08A	Amend Rule 10.12
	Amend Appendix F1	(Nil)
<b>II. Consequential Rule Amendments</b>		
Bonus Issues of a Class of Securities New to Listing (§ II.A)	Amend Rules 8.08(2) and 8.08(3)	Amend Rules 11.23(3)(b)(ii) and 11.23(8)
	Add Rule 8.08(4)	Add Note 11 to Rule 11.23
Statement of Minimum Public Float in Listing Document (§ II.B)	Add paragraph 14(3) to Appendix D1A, and add paragraph 9(3) to Appendix D1B	(Nil)
Exceptions for Secondary Listings of Overseas Issuers (§ II.C)	Amend Rule 19C.11	(Nil)
Minimum Market Value of H Shares (§ II.D)	Repeal Rule 19A.13B	(Nil)
Mandatory Public Offer Requirement for GEM Issuers (§ II.E)	(Nil)	Amend Rule 10.11A



Subject (Section Reference in Chapter 2)	Listing Rules	
	Main Board	GEM
<b>III. Other Rule Amendments</b>		
Determination of Market Capitalisation for New Listing Applicants (§ III.A)	Amend Rules 8.09A	Add Note 12 to Rule 11.23
	Add Rule 19A.13D	Add Rule 25.07C
Listing Notice (§ III.B)	Amend Rule 12.02	Amend Rule 16.07
SPAC Warrants and Successor Company's Warrants (§ III.C)	Add Rules 18B.05A and 18B.65A	(Nil)
Allocation of Shares in Specialist Technology Companies (§ III.D)	Amend Rule 18C.08	(Nil)

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## APPENDIX IV: COMPARISON OF OPEN MARKET REQUIREMENTS AMONG INTERNATIONAL STOCK EXCHANGES

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**Table 17: Public float calculation approaches of the Exchange and other international stock exchanges**

Stock exchange	Public float* calculation approach
HKEX	Calculated as a percentage of the issuer’s total number of issued shares (excluding treasury shares).
ASX <sup>1</sup>	Calculated as the percentage of <u>the main class of securities</u> of an entity (i.e. ordinary securities of the entity, or where ordinary securities are not to be quoted, the class of securities designated by ASX) that: (a) are not restricted securities or subject to voluntary escrow; and (b) are held by non-affiliated security holders.
LSE (Main Market) <sup>2</sup>	<p>Where an applicant is applying for the admission of a class of equity shares to listing in the equity shares (commercial companies) category, a sufficient number of <u>shares of that class</u> must, no later than the time of admission, be distributed to the public.</p> <p>For this purpose:</p> <ul style="list-style-type: none"> <li>(a) shares for which application for admission has been made are to be taken into consideration and treasury shares are not to be taken into consideration; and</li> <li>(b) shares are not held in public hands if they are: (i) held by certain persons (e.g. directors, trustees of any employees’ share scheme, and shareholders with 5% or more shareholding); or (ii) subject to lock-up period of more than 180 calendar days.</li> </ul>

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<sup>1</sup> [ASX Listing Rule 19.12](#).

<sup>2</sup> FCA Handbook UK Listing Rules [5.5.1R](#), [5.5.2R](#) and [5.5.3R](#).

Stock exchange	Public float* calculation approach
SGX <sup>3</sup>	<p>At listing, an issuer must ensure that a proportion of its <u>post-invitation issued share capital</u> are to be held in public hands. For this purpose, existing public shareholders may be included, subject to an aggregate limit of 5% of the issuer's post-invitation issued share capital and provided such shares are not under moratorium.</p> <p>After listing, an issuer must ensure that a percentage of the total number of <u>issued shares</u> excluding treasury shares (excluding preference shares and convertible equity securities) <u>in a class that is listed</u> is at all times held by the public.</p>

\* Please note that each stock exchange adopts its own definition of “public float” (sometimes referred to as “free float”) and these definitions may differ from that of the Exchange.

**Table 18: Initial and ongoing public float thresholds on the Exchange and other international stock exchanges**

Stock exchange	Initial public float thresholds*	Ongoing public float thresholds*
SEHK <sup>4</sup>	25% of the issuer's total number of issued shares (excluding treasury shares) or 15% to 25% for issuers with an expected market capitalisation at the time of listing of over HK\$10 billion, with a market value of shares held by the public of at least HK\$125 million (GEM: HK\$45 million)	Same as initial listing requirements
ASX <sup>5</sup>	20% of the main class of securities of the entity	No requirement

<sup>3</sup> SGX Mainboard Rule [210\(1\)\(a\)](#) (Catalist Rule [406\(1\)](#)); and SGX Mainboard Rule [723](#) (Catalist Rule [723](#)).

<sup>4</sup> MB Rules 8.08(1)(a) and (d) (GEM Rules 11.23(7) and (10)); and MB Rule 8.09(1) (GEM Rule 11.23(2)(a)).

<sup>5</sup> [ASX Listing Rule](#) 1.1 (Condition 7).

Stock exchange	Initial public float thresholds*	Ongoing public float thresholds*
LSE (Main Market) <sup>6</sup>	10% of the shares for which application for admission has been made (excluding treasury shares)	Same as initial listing requirements
Nasdaq (Global Select Market) <sup>7</sup>	At least 1.25 million unrestricted publicly held shares with a market value of US\$45 million at IPO (for domestic companies)	At least 750,000 to 1.1 million publicly held shares with a market value of US\$5 million to US\$15 million
NYSE <sup>8</sup>	At least 1.1 million publicly held shares with an aggregate market value of US\$40 million at IPO (for domestic companies)	At least 600,000 publicly held shares

<sup>6</sup> FCA Handbook UK Listing Rules [5.5.2R](#) and [6.2.22R](#).

<sup>7</sup> Nasdaq Rules [5315\(e\)\(2\)](#), [5315\(f\)\(2\)\(C\)](#) and [5450](#).

<sup>8</sup> NYSE Listed Company Manual Sections [102.01A](#) and [802.01](#).

Stock exchange	Initial public float thresholds*	Ongoing public float thresholds*	
SGX (Mainboard) <sup>9</sup>	Market capitalisation (S\$ million) (“M”)	10% of the total number of issued shares excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed	
	M < 300		25%
	300 ≤ M < 400		20%
	400 ≤ M < 1000		15%
	M ≥ 1000		12%

\* Please note that each stock exchange adopts its own definition of “public float” (sometimes referred to as “free float”) and these definitions may differ from that of the Exchange. For example, LSE and SGX exclude shareholders with 5% or more shareholding from the definition of “the public”, while the corresponding threshold for the Exchange is 10%. Also, ASX, LSE, Nasdaq and SGX all have additional requirements in place to ensure that some or all of such shares to be counted towards “public float” are also not subject to any lock-up arrangement upon listing.

**Table 19: Public float disclosure in annual reports of issuers listed on the Exchange and other international stock exchanges**

Stock exchange	Disclosure of public float in annual reports
SEHK <sup>10</sup>	A statement of sufficiency of public float (based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report)

<sup>9</sup> SGX Mainboard Rule [210\(1\)\(a\)](#) and [723](#).

<sup>10</sup> MB Rule 13.35 (GEM Rule 17.38A).

Stock exchange	Disclosure of public float in annual reports
US stock exchanges <sup>11</sup>	<p>A statement of the aggregate market value of the voting and non-voting common equity held by non-affiliates (computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter)</p> <p><i>Note. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in the Form 10-K.</i></p>
SGX <sup>12</sup>	<p>A statement setting out the percentage of shareholding held in the hands of public and confirmation that Mainboard Rule 723 (Catalist Rule 723) is complied with</p> <p><i>Note: See Table 18 above for the requirement under Mainboard Rule 723.</i></p>

<sup>11</sup> [Form 10-K](#) (Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934), p.10.

<sup>12</sup> SGX Mainboard Rule [1207\(9\)\(e\)](#) (Catalist Rule [1204\(9\)\(e\)](#)).

## APPENDIX V: SUMMARY OF OPEN MARKET REQUIREMENTS

Table 20: Illustration of initial public float and free float requirements (current and proposed) for selected types of issuers

			Current initial public float requirements	Proposed initial public float requirements	Proposed initial free float requirements
Issuers with a single class of shares (other than a PRC issuer)	Basis for % calculation	Numerator	Shares in public hands		Free float shares in public hands
		Denominator	Total number of issued shares		
	Thresholds		25% (or 15% to 25% if the expected market capitalisation is over HK\$10 billion at listing)	Tiered percentage thresholds ranging between 5% and 25%	10%, with market value of HK\$50 million (GEM: HK\$15 million) (or HK\$600 million in market value)
Issuers with a WVR structure and SPACs	Basis for % calculation	Numerator	Shares (or securities) in public hands		Free float shares in public hands
		Denominator	Total number of issued shares	Total number of shares (or securities) in issue of the class to be listed <sup>1</sup>	
	Thresholds		25% (or 15% to 25% if the expected market capitalisation is over HK\$10 billion at listing)	Tiered percentage thresholds ranging between 5% and 25%	10%, with market value of HK\$50 million (GEM: HK\$15 million) (or HK\$600 million in market value)

<sup>1</sup> This means that: (a) in the case of an issuer with a WVR structure, WVR shares would be excluded; and (b) in the case of a SPAC, Promoter Shares (and Promoter Warrants) would be excluded.

			Current initial public float requirements	Proposed initial public float requirements	Proposed initial free float requirements
PRC issuers with a single class of shares and no other listed shares	Basis for % calculation	Numerator	H shares in public hands		Free float H shares in public hands
		Denominator	Total number of issued shares		
	Thresholds		25% (or 15% to 25% if the expected market capitalisation is over HK\$10 billion at listing)	Tiered percentage thresholds ranging between 5% and 25%	10%, with market value of HK\$50 million (GEM: HK\$15 million) (or HK\$600 million in market value)
A+H issuers with a single class of shares	Public float	Basis for % calculation	A and H shares in public hands	Repeal current requirement	(Not applicable)
		Denominator	Total number of issued shares		
		Thresholds	25%		
Minimum H shares	Basis for % calculation	Numerator	H shares in public hands	H shares in public hands	Free float H shares in public hands
		Denominator	Total number of issued shares		Total number of H shares in issue
	Thresholds		15%, with market value of HK\$125 million (GEM: HK\$45 million)	10%, with market value of HK\$125 million (GEM: HK\$45 million) (or HK\$3 billion in market value)	10%, with market value of HK\$50 million (GEM: HK\$15 million) (or HK\$600 million in market value)



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## APPENDIX VI: PRIVACY NOTICE

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Hong Kong Exchanges and Clearing Limited and its affiliated companies (together "HKEX", "we", "our" or "us") are committed to protecting all Personal Data under our custody, control, or possession. "Personal Data" is any information that relates to an identifiable individual or can be used to identify an individual – sometimes the individual is referred to as a "Data Subject" or consumer.

This privacy notice ("Notice") applies to the Personal Data we collect and further process from Data Subjects who respond to our public consultation papers.

If the correct Personal Data is not submitted to HKEX then we may not be able to ensure the correct details are published or contact respondents if we have queries about their comments and/or, we may be unable to process requests relating to their rights as Data Subjects under the applicable data protection laws.

### What Personal Data do we collect and how do we collect it?

#### Information directly submitted by or collected from you:

- Identity data such as name and position in a company;
- Contact data such as phone number and email address;
- Opinion data such as your response to the consultation paper; and
- Communications data such as subsequent correspondence with you to clarify your comments or to confirm your identity data.

#### For Data Subjects in Mainland China:

- to verify your identity, we may process your name, position, phone number, and email address;
- to communicate with you, we may process your name, position, phone number, and email address;
- to register your response in our records or change your response upon your request, we may process your name, position, answers and reasons for those answers; and
- to prepare our publication material, we may process and publish your name and position (where your consent has been provided), and your answers and reasons for those answers.

#### For Data Subjects who are California residents:

To the extent the California Privacy Rights Act applies, the types of Personal Data we collect (and have collected in the past 12 months) includes the categories listed below, as defined by California state law:

Category	Source	Purpose of Processing
Personal identifiers such as your name and email address	Collected directly from you	For verification of identity, clarification of comments, record keeping and/or publication
Information About You including your name, position, and telephone number		

### Why do we use the Personal Data and how do we use it?

The "Legal Basis" is what data protection laws set out as the lawful reasons for processing Personal Data, such as a legitimate interest to operate our business so long as it does not materially and adversely impact your interests, rights, and freedoms.

<b>Legal Basis</b>	<b>Purpose</b>
Legitimate Interests	<ul style="list-style-type: none"> <li>Opinion data as part of the consultation process to understand the market/public response to the proposal(s) set out in the consultation;</li> <li>Identity and contact data to verify and clarify responses;</li> <li>Identity data where consent has been provided for external publication;</li> </ul>
Public Interest	<ul style="list-style-type: none"> <li>We may also process your personal data on the basis that it is necessary for the performance by HKEX of a task in the public interest.</li> </ul>
Consent	<u>Separate consent</u> <ul style="list-style-type: none"> <li>Required if you are a Data Subject in Mainland China and we need to share your Personal Data with a third party, publicly disclose it, or transfer it outside Mainland China.</li> </ul>
Legal Regulatory Obligations	or <ul style="list-style-type: none"> <li>Discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller;</li> <li>Comply with a court order, subpoena or other legal process;</li> <li>Comply with a request by a government authority, law enforcement agency or similar body; and</li> <li>Comply with laws applicable to us including domestic data protection laws.</li> </ul>

### **Do we disclose Personal Data to third parties or transfer it to another jurisdiction?**

HKEX discloses Personal Data to one or more third party organisations that enable us to process public consultation papers and these include:

- Affiliates of Hong Kong Exchanges and Clearing;
- Our contractors or vendors who provide telecommunications, IT security, or other technical assistance;
- Our vendors who facilitate the availability of online forms;
- Our vendors who provide strategy or other consultancy services in respect of our businesses; and
- Our agents, contractors or vendors who provide administrative support to us.

To fulfil our legal obligations, we may also share your Personal Data with courts, regulatory authorities, government and law enforcement agencies, and other public authorities.

Further details about these third parties may be provided upon request to the address in the “Contact Us” section below. We shall endeavour to provide such information to the extent we are required to do so under applicable data protection laws.

Where required under applicable data protection laws, HKEX will only disclose Personal Data to third parties with your prior consent. In certain jurisdictions, HKEX may also be required to take additional measures prior to giving effect to such transfers (e.g. carrying out privacy impact assessments prior to the transfer).

HKEX may process Personal Data outside of the Data Subject’s home jurisdiction, including sharing the Personal Data with third parties. HKEX shall use reasonable endeavours to ensure that the laws and regulations of the destination jurisdiction shall offer the same or comparable level of protection for Personal Data. Where this is not the case, we shall ensure appropriate safeguards are in place at the time of the transfer by implementing standard contractual clauses or other data transfer mechanism approved by the authorities of the relevant jurisdiction. Where required under applicable data protection laws, we shall also carry out additional measures for the offshore transfer such as carrying out a privacy impact assessment.

The regions where the Personal Data may be hosted or transferred to will vary from time to time, but typically include Hong Kong, the UK, US, EU, Switzerland, Singapore, Japan, India, and Mainland China.

Further details on the processing locations and our measures for safeguarding international transfers (including adequacy decisions) may be obtained upon request to the address in the “Contact Us” section below.

### **How long do we keep the Personal Data?**

Personal Data is retained in accordance with our internal policies, including our Group Record Retention Policy, and applicable law.

Your Personal Data will be retained by us for as long as is necessary to fulfil the purposes required for the processing. HKEX will also refer to the following factors when determining or confirming the appropriate retention period of Personal Data:

- the original purpose of collection;
- the termination of any contract involving the Data Subject’s Personal Data;
- the limitation period as defined in the applicable law;
- the existence of any legal or regulatory investigations or legal proceedings;
- specific laws or regulations setting out HKEX’s functions, obligations, and responsibilities;
- retention period set out in non-statutory guidelines issued by our regulators or international bodies; and
- the sensitivity of the Personal Data and the degree of risk from the associated processing activity.

For Data Subjects in Mainland China, we usually retain the Personal Data for not more than 3 years from the last activity or interaction with us. Further details of our Personal Data retention period may be obtained upon request to the address in the “Contact Us” section below.

Where any Personal Data is no longer necessary for the purposes for which it is collected, we shall cease the processing of that Personal Data as soon as reasonably practicable (although copies may be retained as necessary for archival purposes, for use in any actual or potential dispute, or for compliance with applicable laws), and take reasonable measures to destroy the relevant Personal Data.

### **How do we keep your Personal Data secure?**

We will take all practicable and reasonable steps to promote the security of the Personal Data we process in a manner consistent with applicable data protection laws and established international security standards. This includes physical, technical and administrative safeguards, to help prevent unauthorised access, collection, use, disclosure, copying, modification, disposal or similar risks, and the loss of any storage medium or device on which the Personal Data is stored, and to maintain the general security of the data.

### **Rights over the Personal Data**

As a summary, the following Data Subject rights may be exercised to the extent provided under applicable data protection laws:

- confirm whether we hold the Data Subject’s Personal Data and the type of Personal Data held by us;
- access a copy of the Personal Data held by us;
- delete your Personal Data held by us;
- correct or supplement your Personal Data where it is found to be inaccurate;
- restrict the processing performed on your Personal Data;
- withdraw consent to the processing of your Personal Data in certain situations (e.g. processing carried out on the basis of our legitimate interests); and
- transfer the Personal Data to another party in a machine readable format.

In certain jurisdictions, Data Subjects may also be provided with additional rights.

<b>California</b>	<ul style="list-style-type: none"><li>Request that we disclose the categories of third parties with whom we have shared the information and the categories of Personal Data that we have shared with third parties for a business purpose.</li></ul>
<b>Mainland China</b>	<ul style="list-style-type: none"><li>Explanation on the rules of processing the Personal Data;</li><li>Extension of the Data Subject rights to a surviving next-of-kin where the applicable laws permit; and</li><li>Transfer of your Personal Data to your designated party, where the applicable laws permit.</li></ul>
<b>United Kingdom and Europe</b>	<ul style="list-style-type: none"><li>Right to object to processing. You have the right to object to processing to the extent we process your Personal Data because the processing is in our legitimate interests.</li></ul>
<b>Singapore</b>	<ul style="list-style-type: none"><li>In certain circumstances, receive information about the ways in which the Personal Data has been or may have been used or disclosed by us in the year before the date of the request.</li></ul>

Where these rights apply, we shall use reasonable endeavours to fulfil the request or provide an explanation. Please note that under applicable data protection law, we are only obligated to respond to Personal Data requests from the same Data Subject up to two times in a 12-month period, and we may be limited in what Personal Data we can disclose which is also for the protection of your Personal Data.

We will endeavour to respond to you as soon as possible and, in any event, within the timeframe stipulated under the applicable data protection law. In the event of a potential delay, we will provide an explanation and the expected timeframe for delivery. Under applicable data protection law, we may also be required to charge a reasonable fee for the cost of processing the request.

Please note that we may need to seek confirmation of identity or clarification in order to fulfil the request. If you as the Data Subject would like to appoint an authorised agent to make a request on your behalf, we may require you to verify your identity with us directly before we provide any requested information to your authorised agent unless your authorised agent has power of attorney or acts as a conservator. Information collected for purposes of verifying your request will only be used for verification. For deletion requests, you will be required to submit a verifiable request for deletion and then confirm separately that you want Personal Data about you deleted.

If you would like to exercise your data subject rights, please contact the HKEX Group Data Protection Office via one of the channels below.

### **Contact Us**

If you have any questions or comments relating to the content of this Notice, report any concerns about our Personal Data processing, or if you would like to exercise your Data Subject Rights, please contact us through the channels below:

Group Data Protection Officer  
GDPO Office  
Hong Kong Exchanges and Clearing Limited  
8/F., Two Exchange Square 8 Connaught Place  
Central  
Hong Kong  
[DataPrivacy@hkex.com.hk](mailto:DataPrivacy@hkex.com.hk)

UK Representative:  
10 Finsbury Square, London, EC2A 1AJ, United Kingdom

EU Representative:  
De Cuserstraat 91, 1081 CN Amsterdam, Postbus/PO Box 7902, 1008 AC Amsterdam, Netherlands  
hkex.eurep@eversheds-sutherland.com

Please include the following details in any request to exercise your Data Subject Rights:

Identity of Data Subject

- Full Name
- Company Name
- Email Address
- Address of principal residence
- Identity particulars if acting on behalf of a Data Subject
- Contact *details held on file or Document(s) to verify identity*

Nature of the Request

- Product or Service to which the Data Subject has subscribed
- Specific Right
  - Purpose of the Request
  - Preferred communication channel and address for receiving the results of the request
  - Document(s) to support the rights request

Any Data Subject who has contacted us to express concerns about the way we manage their Personal Data and is of the view that we have not addressed the matter satisfactorily, may also contact the relevant privacy regulator to resolve the matter or seek assistance.

The privacy regulator in the United Kingdom is the Information Commissioner, who may be contacted at <https://ico.org.uk/make-a-complaint/> or by post to: Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF, United Kingdom.

If you live outside of the UK, you may contact the relevant data privacy regulator in your country of residence.

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# Hong Kong Exchanges and Clearing Limited

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