

**HONG KONG STOCK
EXCHANGE
CONSULTATION: IPO PRICE
DISCOVERY & OPEN
MARKET REQUIREMENTS**

HKEX CONSULTATION PAPER: PROPOSALS TO OPTIMISE IPO PRICE DISCOVERY & OPEN MARKET REQUIREMENTS

- **Consultation Paper:** published December 2024
- **2 key areas of reform:**
 - IPO price discovery process
 - Requirements for an open market
- **Objective:** Enhance competitiveness of HK listed securities market
- **Consultation period:** Closed 19 March 2025

PUBLIC FLOAT CALCULATION

Public Float:

- Percentage of listed shares held by the public
- Aims to ensure sufficient shares available for public trading

Current Calculation:

- Numerator: Shares held by the public
- Denominator: Total issued shares (excluding treasury shares)

PUBLIC FLOAT CALCULATION (CONT'D)

Inclusion of Non-Tradable Shares:

- PRC Issuers (H share companies) often have:
 - H shares (Hong Kong-listed)
 - A shares (PRC-listed)
 - Unlisted shares
- Current Listing Rules include H & A shares in numerator & denominator & unlisted shares only in denominator

$$\frac{\text{Publicly held A \& H shares}}{\text{Total issued shares (including H, A \& unlisted shares)}}$$

Problem: includes shares that don't contribute to an open market in Hong Kong

PROPOSED CHANGES TO PUBLIC FLOAT CALCULATION

- **General Rule:**
 - Public float calculated based on total number of shares of **listed class only**
 - Impacts companies with other share class(es) (other than listed class)
- **Single-class companies:**
 - No change for companies with single share class
- **Non-PRC companies with single share class:**
 - Overseas companies often list same class of shares in HK & overseas
 - Publicly held overseas listed shares (in same class as HK-listed shares) included in numerator, as per current rules
- **Non-PRC companies with other share class(es) listed overseas:**
 - Numerator to include publicly held shares of class listed in HK only;
 - Denominator to include all classes of issued shares (including classes listed overseas)

PROPOSED CHANGES TO PUBLIC FLOAT CALCULATION (CONT'D)

Calculation for PRC Issuers

- Under PRC Regulations, H shares, A shares & unlisted shares = same class of shares

PRC Issuers with single share class & no other listed shares:

- No change for PRC Issuers without other listed shares
- Public float calculated based on publicly held H shares as % of total issued shares (H shares + unlisted shares)

$$\frac{\text{publicly held H shares}}{\text{total issued shares (H shares \& unlisted shares)}}$$

A+H Issuers

- Numerator to **only** include publicly held H shares
- Denominator to include H, A & unlisted shares

$$\frac{\text{publicly held H shares}}{\text{total issued shares (H shares, A shares \& unlisted shares)}}$$

PROPOSED CHANGES TO PUBLIC FLOAT CALCULATION (CONT'D)

Public Float Calculation for WVR Companies

- **Proposed Change:**
 - Remove requirement to include unlisted shares with weighted voting rights (**WVR**) in the denominator

Public Float Calculation for SPACs

- **Proposed Change:**
 - Remove requirement to include Promoter Shares and Promoter Warrants in the denominator

MINIMUM MARKET VALUE OF PUBLIC FLOAT

Current Market Value Requirements

- **Main Board:**
 - Minimum market value of HK\$125 million for publicly held shares at time of listing
- **GEM:**
 - Minimum market value of HK\$45 million for publicly held shares at time of listing

Proposed Listing Rule Change (MB LR 8.09(1)/ GEM LR 11.23(2)(a))

- **Clarification:**
 - Minimum market value requirement applies only to publicly held shares “for which listing is sought”
 - Does not apply to all publicly held shares in general

DEFINITION OF THE “PUBLIC”

Proposed Revisions to Definition

Additional Exclusions

- Persons whose acquisition of Listco shares financed by Listco
- Persons taking instructions from Listco re. acquisition, disposal or voting of Listco shares
- **Impact on Share Schemes:**
 - Shares held by a trustee for share scheme participants will no longer be considered publicly held
 - Exception: shares held by **independent trustee** for **independent share scheme** participants

INITIAL PUBLIC FLOAT THRESHOLD

Current initial public float thresholds

Expected market cap at time of listing	Minimum public float as % of total number of issued shares
\leq HK\$ 10 billion	25%
\geq HK\$ 10 billion	Exchange has discretion to accept public float between 15% & 25%



PROPOSED INITIAL PUBLIC FLOAT THRESHOLDS

TIER	EXPECTED MARKET CAP OF SHARE CLASS AT LISTING	MINIMUM % OF CLASS TO BE IN PUBLIC HANDS ON LISTING
A	≤HK\$6 billion	25%
B	> HK\$6 billion to ≤ HK\$30 billion	Higher of: (i) % that would make the expected market value of such shares in public hands HK\$1.5 billion at listing; and (ii) 15%
C	>HK\$30 billion to ≤HK\$70 billion	Higher of: (i) % that would make the expected market value of such shares in public hands HK\$4.5 billion at listing; and (ii) 10%
D	>HK\$70 billion	Higher of: (i) % that would make the expected market value of such shares in public hands HK\$7 billion at listing; and (ii) 5%

PROPOSED INITIAL PUBLIC FLOAT THRESHOLD (CONT'D)

Basis of Calculation:

- Class of shares in issue on listing (excluding treasury shares)
- Includes shares issued on listing
- Excludes shares issued after listing (e.g., under over-allotment option or share schemes)
- **Tiered Public Float Thresholds for GEM:**
 - Same tiered initial public float thresholds to apply to GEM
- **Disclosure Requirement:** Listing applicants to disclose initial public float threshold in listing documents
- Tiered public float thresholds **WILL NOT APPLY** to:
 - PRC Issuers with listed A shares or shares listed overseas; or
 - Other listing applicants with other share class(es) listed overseas

ONGOING PUBLIC FLOAT

- **Current Requirement:**

- Listcos must maintain the same public float % as at listing regardless of changes in market cap

- HKEX typically suspends trading in Listco shares if public float falls below required minimum

- **Issues:**

- Current requirements can restrict transactions (e.g. share buy-backs)
- Public float shortfall can occur on share acquisition by 3rd party
- Public float restoration can be difficult & expensive
- Trading suspension deprives shareholders of ability to trade
- No alternative trading platform in HK for suspended/delisted shares

ONGOING PUBLIC FLOAT (CONT'D)

- **HKEX is consulting on:**
 - whether listed companies should be allowed to maintain a lower public float, after listing, than that required at listing
 - whether HKEX should continue to suspend trading of listed companies in breach of public float requirement
- **Potential OTC Market in Hong Kong** - HKEX seeking views on:
 - establishing an HK OTC market
 - potential risks & benefits
 - functions
 - retail access to OTC market



ONGOING PUBLIC FLOAT DISCLOSURES

Current Public Float Disclosure Requirements

Annual Reports

- Listcos must confirm compliance with public float requirement
- Not required to disclose actual % publicly held shares

Corporate Governance Code RBP

- Recommended to disclose actual % of publicly held shares in Corporate Governance reports

Current Practice

- Most Listcos confirm public float compliance only without disclosing actual public float %

PROPOSED ONGOING PUBLIC FLOAT DISCLOSURES

- **Percentage of Publicly Held Shares**

- Annual report to disclose % of class of shares listed in HK held by public at financial year-end
- PRC Issuers to disclose % of H shares held by public at financial year-end

- **Composition of Share Ownership**

- Annual report to disclose ownership composition of class of shares listed in HK at financial year-end
- Disclosure can be in the form of a table & must identify specified shareholder categories (to be included in HKEX guidance)

PROPOSED ONGOING PUBLIC FLOAT DISCLOSURES (CONT'D)

Non-public shareholders

- Substantial shareholders of Listco & close associates (*on named basis*)
- Directors, CEO & supervisors of Listco & close associates (*on named basis*)
- Other shareholders excluded from “public” including:
 - directors, CEOs & supervisors of Listco’s subsidiaries & close associates
 - other non-public shareholders (e.g. persons taking instructions from Core Connected Persons)

Public shareholders

- Persons defined as the “public” who have disclosed interests under Part XV SFO
- Independent trustees holding granted but unvested shares under share scheme for independent scheme participants
- Other members of the public

PROPOSED INITIAL FREE FLOAT REQUIREMENT

Current situation:

- **No Free Float Requirement:** No requirement for minimum no. of shares to be free of disposal restrictions
- **Lock-up Restrictions:**
 - Controlling shareholders: 12 months post-listing
 - Cornerstone investors: typically 6 months post-listing
 - Pre-IPO investors: often enter voluntary lock-ups of ≥ 6 months
- **Exception for Specialist Technology Companies (Chapter 18C):**
 - Must have shares free of disposal restrictions with market cap of \geq HK\$600 million at listing

Issues:

- No guarantee of minimum no. of freely tradeable shares post-listing
- 13% of 348 Listcos listing between 2020-2023 had free float $< 5\%$

PROPOSED INITIAL FREE FLOAT REQUIREMENT (CONT'D)

Initial Free Float =

- Portion of listing applicant's **publicly held** shares with **no restrictions on disposal** at listing

Proposed Thresholds

- Listing applicants must have free float in public hands either:
 - representing $\geq 10\%$ of share class listed in HK with market value of \geq HK\$50 million; OR
 - having expected market value of \geq HK\$600 million at listing

Data from Consultation Paper:

- 30% of Main Board listings (2020–2023) would not have met proposed requirement

INITIAL FREE FLOAT FOR PRC ISSUERS

New applicant PRC Issuer: No other listed shares

- Publicly held H shares with no restrictions on disposal must either:
 - represent $\geq 10\%$ of total issued shares in same class (including unlisted shares) with market value of \geq HK\$50 million (GEM \geq HK\$15 million) OR
 - have expected market cap of \geq HK\$600 million at listing

New applicant A+H Issuers

- Publicly held H shares with no restrictions on disposal must either:
 - represent $\geq 10\%$ of total number of issued H shares with market value of \geq HK\$50 million (GEM \geq HK\$15 million) OR
 - have expected market cap of \geq HK\$600 million at listing



INITIAL FREE FLOAT REQUIREMENT PROPOSAL (CONT'D)

- **Extension to Specialist Technology Companies**
 - **Proposal:** Initial free float requirement to replace current requirement for Specialist Technology Companies
- **Calculation of Initial Free Float**
 - **Included in Calculation:**
 - Shares issued at listing (excluding treasury shares)
 - **Excluded from Calculation:**
 - Shares held by an independent trustee under a share scheme (not yet vested)
 - Note: These shares will still count as part of the public float
- **Scope of Proposed Free Float Requirement**
 - Applicable only to listed shares (not convertible securities, options etc.)

MINIMUM NO. OF SHARES A+H ISSUERS MUST LIST ON HKEX

Current Requirement for Listing Applicants with Other Share Classes

- Must list $\geq 15\%$ of total number of issued shares (excl. treasury shares) with market value of \geq HK\$125 million (GEM \geq HK\$45 million)

Proposed Requirement for A+H Listing Applicants

- Must list H Shares that either:
 - represent $\geq 10\%$ of total number of shares of same class as H shares (excl. treasury shares); OR
 - have expected market cap of \geq HK\$3 billion at listing

MINIMUM NO. OF SHARES TO BE LISTED BY APPLICANTS WITH OTHER LISTED SHARE CLASSES

- Other listing applicants with other shares class(es) listed on overseas regulated markets must list shares:
 - representing $\geq 10\%$ of total number of issued shares; OR
 - having expected market cap of \geq HK\$3 billion at listing

PUBLIC FLOAT FOR A+H ISSUERS + ISSUERS WITH OTHER LISTED SHARE CLASSES

- HKEX proposal: minimum no. of shares thresholds on Slides 22 & 23 also apply as minimum initial public float thresholds
- Required minimum must be publicly held
- Minimum market value of publicly held shares must be HK\$125 million (GEM HK\$45 million)

Public Float Requirement for A+H Listing Applicants

- Publicly held H shares must be:
 - 10% of total issued shares of same class (i.e., A, H & unlisted shares) having a market cap of \geq HK\$125 million (GEM: \geq HK\$45 million); OR
 - have a market cap of \geq HK\$3 billion

ONGOING MINIMUM % & MARKET VALUE OF LISTED SHARES


- Current requirement for PRC Issuers & other Issuers with other listed share classes to list minimum % of total issued shares on HKEX applies only at listing
- 2023 Consultation re. potential decline in size/liquidity of H share market if PRC Issuers issue new A shares only post listing
- No proposal to impose ongoing obligation for maintaining minimum % of shares listed on HKEX
- PRC Issuers retain flexibility to conduct follow-on offerings in:
 - A share market OR
 - H share market



CALCULATION OF LISTING APPLICANTS' MARKET CAP:

- **Current Main Board Requirement** for listing applicants with other share classes:
 - Expected issue price of shares listed on HKEX used to calculate market cap of
 - shares listed on other regulated markets
 - unlisted shares
- **GEM Listing Rules:** No specific provision
- **Issue with A+H Listing Applicants**
 - A shares (listed on PRC exchanges) often trade at a higher price than H shares
 - Using expected issue price of H shares to calculate market cap can result in significant undervaluation

HKEX Current Practice: Calculates market cap based on A shares' trading price & H shares' expected offer price



CALCULATION OF LISTING APPLICANTS' MARKET CAP: PROPOSED CHANGE

- **For listing applicants with other share classes:**
 - Expected issue price of shares listed in Hong Kong will be used to calculate market value of unlisted shares
- **Additional Guidance:**
 - HKEX will provide guidance for calculating market value of shares listed on other regulated markets (e.g., A shares)

PROPOSED CHANGES TO IPO OFFERING MECHANISM

Placing Tranche

- **Cornerstone placing tranche**
 - Shares placed with “cornerstone investors” who:
 - commit to participate in IPO at final offer price
 - for pre-agreed investment amount
 - receive guaranteed share allocation
- **Bookbuilding placing tranche**
 - Shares placed with investors after “bookbuilding” process during which they indicate number of shares they are willing to subscribe for & price willing to pay

Public Subscription Tranche

- Shares allocated to retail investors who apply during offer period



LOCK-UP ON CORNERSTONE INVESTMENT

Role of Cornerstone Investors in IPOs

- Commit to subscribing for shares before the prospectus is published (final IPO price unknown)
- Typically subject to 6-month lock-up post-listing
- Signal market confidence in the IPO

Concerns

- Some institutional investors (e.g., fund managers) cannot hold illiquid investments
- Post lock-up volatility

PROPOSED OPTIONS FOR CORNERSTONE LOCK-UPS

OPTION A

- Retain existing 6-month lock-up

OPTION B

- **First Lock-Up:** All IPO shares placed with cornerstone investors locked for 3 months from listing
- **Second Lock-Up:** 50% of IPO shares locked for further 3 months after first lock-up expires



ALLOCATION TO BOOKBUILDING TRANCHE

Current Rules: No general minimum or maximum allocation to bookbuilding tranche

Exception for Specialist Technology Companies:

- $\geq 50\%$ of IPO shares must be allocated to independent price-setting investors

Placing Guidelines: Spread of IPO Shareholders in Placing Tranche:

- IPO shares must be placed with an adequate spread of shareholders
- ≥ 3 shareholders for each HK\$1 million of placing
- Minimum of 100 shareholders

Para 17 SFC Code of Conduct: Overall Coordinator must:

- Develop allocation policy taking account of:
 - listing applicant's price preference
 - desired shareholder base

PROPOSED MINIMUM ALLOCATION TO BOOKBUILDING TRANCHE

Key Proposal

- $\geq 50\%$ of IPO shares initially offered must be allocated to bookbuilding tranche
 - Shares initially offered - total no. of offer shares stated in prospectus before exercise of:
 - over-allotment option
 - offer size adjustment option
 - Will not apply to Specialist Technology Company listings (existing requirement to continue)

SPREAD OF PLACEDS

- HKEX will **retain** current Listing Rule requirements (MB LR 8.08(2) / GEM 11.23(2)(b)):
 - Must be adequate spread of shareholders on listing
 - Main Board: Minimum of 300 shareholders on listing
 - GEM: Minimum of 100 shareholders on listing
- HKEX will **remove** Placing Guidelines' requirements for:
 - 3 shareholders for each HK\$1 million of placing
 - 100 placeds
- SFC Code of Conduct requires adequate spread of shareholders for placing tranche

ALLOCATION TO PUBLIC SUBSCRIPTION TRANCHE

○ **Current Minimum Allocation to Subscription Tranche**

		Demand for shares in public subscription tranche in no. of times (x) the initial allocation		
	Initial allocation	≥15x to <50x	≥50x to <100x	≥100x
Minimum % offer shares allocated to public subscription tranche	10%	30%	40%	50%

ALLOCATION TO PUBLIC SUBSCRIPTION TRANCHE

Current minimum allocation for Specialist Technology Companies

		Demand for shares in public subscription tranche in no. of times (x) the initial allocation	
	Initial allocation	$\geq 10x$ to $< 50x$	$\geq 50x$
Minimum % offer shares allocated to public subscription tranche	5%	10%	20%

ALLOCATION TO PUBLIC SUBSCRIPTION TRANCHE PROPOSALS

Listing Applicants (other than Specialist Technology Companies) must either:

- make 5% initial allocation of IPO shares to public subscription tranche & adopt same clawback mechanism as applies to Specialist Technology Companies (**Mechanism A**) OR
- make minimum 10% initial allocation of IPO shares to public subscription tranche with **NO** clawback mechanism (**Mechanism B**)

Specialist Technology Companies will be able to adopt Mechanism A only.

If adopted, HKEX will also extend to GEM listing applicants



RESTRICTIONS ON REALLOCATION & PUBLIC OFFER OVER-ALLOCATION

- Restrictions are imposed under Chapter 4.14 of the Guide for New Listing Applicants
- Purpose: prevent investors in public subscription tranche being allocated shares at a price unattractive to placing tranche participants
- Depending on outcome on proposals on initial allocation to public subscription tranche & clawback mechanism, HKEX proposes consequential changes to restrictions on reallocations and over-allocations of offer shares to the public subscription tranche



PRICING FLEXIBILITY MECHANISM FOR LISTING APPLICANTS

Listing applicants can set final offer price below indicative offer price or offer price range stated in prospectus

Price Reduction Limits:

- If prospectus gives indicative offer price:
 - final offer price cannot be >10% below indicative offer price
- If prospectus gives offer price range:
 - top of price range cannot be >30% above bottom of range
 - final offer price cannot be >10% below bottom of range

Prospectus Disclosure Requirements:

- Prominent statement of possibility of downward adjustment to offer price
- Disclosure of potential impact of downward adjustment



PROPOSED EXTENSION OF FLEXIBILITY MECHANISM

- **Proposal:** allow listing applicants to adjust final offer price up and down, after prospectus publication, by maximum of:
 - 10% above the indicative offer price or the top of the offer price range; and/or
 - 10% below the indicative offer price or the bottom of the offer price range
- **Prospectus Disclosure Requirements:** Similar disclosure for upward adjustment as for downward adjustment currently
- **Offer Price Range:** HKEX consulting on whether to:
 - retain upper limit of 30% above bottom of range; or
 - reduce upper limit to 20% above bottom of range

