

30 September 2025

BY HAND AND BY EMAIL

Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Further Consultation Paper on Proposals to Optimise IPO Price Discovery and Open Market Requirements

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the further consultation on ongoing public float requirements in the Conclusions and Further Consultation Paper. Terms used in this letter shall have the same meanings as in the Conclusions and Further Consultation Paper.

As set out in our response dated 19 March 2025 to the Consultation Paper released in December 2024, we agree that it makes sense to lower the ongoing public float requirements and to require additional disclosure to provide more transparency.

Set out below are our comments on the key proposals on ongoing public float requirements.

Alternative Threshold

We agree with the proposal to implement the Alternative Threshold, which will provide an alternative ongoing public float threshold for issuers in addition to the Initial Prescribed Threshold. The Alternative Threshold will provide large cap issuers greater flexibility to conduct transactions for capital management purposes even if those transactions may result in their public float percentage falling below the Initial Prescribed Threshold. According to the Exchange, the Alternative Threshold will also better align its ongoing public float requirements with those of other international stock exchanges which generally apply ongoing public float thresholds that are less stringent than those imposed at initial listing.

We consider the proposed threshold figures (i.e., HK\$1 billion and 10%) for the Alternative Threshold to be reasonable. The market value limb of HK\$1 billion represents 25% (the public float threshold under the old requirements) of HK\$4 billion (the minimum market capitalisation for Main Board listing applicants under the market capitalisation/revenue test) and will be relevant to issuers with a market capitalisation of more than HK\$4 billion. We agree that the market value limb of the threshold should be set at a relatively high level to ensure that a critical mass of shares is still available to help provide an open market for trading. 10% is the lowest public float percentage currently acceptable at initial listing.

We note that the market value of an issuer's shares will be determined on a rolling basis by multiplying (a) the number of shares held by the public as of the date of determination by (b) the volume weighted average price of the shares listed on the Exchange over 125 trading days (being the approximate number of trading days within a six-month period) immediately prior to the date of determination. We agree that this should help smooth out the impact of any short-term fluctuation in share prices.

A+H issuers

We agree with the proposed bespoke ongoing public float threshold figures (i.e., HK\$1 billion or 5%) for a PRC issuer with other listed shares (such as an A+H issuer).

The HK\$1 billion threshold is consistent with the market value required under the Alternative Threshold and represents a discount of 67% to the initial market value threshold of HK\$3 billion applicable to mega cap A+H issuers. This should help ensure that potential fluctuations in share prices will not easily trigger a breach of the proposed Ongoing Public Float Threshold.

The proposed 5% threshold is set lower than the 10% threshold required at initial listing and should provide flexibility for A+H issuers to conduct secondary fundraising on other markets (including PRC stock exchanges) which would result in a reduction in the proportion of H shares listed on the Exchange (relative to the issuer's total number of issued shares). We note that the 5% threshold is determined by reference to the portion of H shares that the Exchange estimates to be maintained currently on the Exchange by existing A+H issuers with relatively smaller market capitalisations.

Regular public float reporting

We agree in principle the proposed regular public float reporting in monthly returns and annual reports. We have a few points to clarify.

We note that, in the context of the ongoing public float proposals, issuers can be grouped into the following broad categories:

- A. Issuers relying on the Initial Prescribed Threshold (which by definition exclude A+H issuers)
- B. Issuers relying on the Alternative Threshold (which by definition exclude A+H issuers)
- C. A+H issuers relying on the market value limb of HK\$1 billion
- D. A+H issuers relying on the bespoke 5% threshold

Table 8 in the Conclusions and Further Consultation Paper (together with the two footnotes) is extracted below. It provides a summary of the regular public float reporting obligations for different types of issuers.

Reporting obligation	Monthly returns	Annual reports
Confirmation of compliance with the applicable Ongoing Public Float Threshold	All issuers	All issuers
Minimum public float percentage threshold	Issuers relying on the Initial Prescribed Threshold	Issuers relying on the Initial Prescribed Threshold
Actual public float percentage	Issuers relying on the market value-based thresholds ^(note 1)	All issuers ^(note 2)
Actual public float market value	Issuers relying on the market value-based thresholds ^(note 1)	Issuers relying on the market value-based thresholds ^(note 1)
Share ownership composition	Not applicable	All issuers ^(note 2)
Share capital structure	Not applicable	All issuers

Notes:

1. These are (a) issuers relying on the Alternative Threshold (see paragraph 312) and (b) PRC Issuers with other listed shares (e.g. A+H issuers) relying on the market value limb of the applicable Ongoing Public Float Threshold (see paragraph 341(a)).
2. As proposed in the Consultation Paper (Section I.B.3 of Chapter 1). See also Section III.A of this Chapter for respondents' feedback and the Exchange's response.

We have the following questions on the applicability of some of the proposed requirements to Issuers falling under Categories A to D.

Reporting obligation	Monthly returns	Annual reports
Minimum public float percentage threshold	Issuers relying on the Initial Prescribed Threshold (Q1)	Issuers relying on the Initial Prescribed Threshold (Q1)
Actual public float percentage	Issuers relying on the market value-based thresholds ^(note 1) (Q2)	All issuers ^(note 2)
Actual public float market value	Issuers relying on the market value-based thresholds ^(note 1)	Issuers relying on the market value-based thresholds ^(note 1)

- Q1:** The proposal only requires issuers under Category A (i.e., issuers relying on the Initial Prescribed Threshold) to state the minimum public float percentage threshold in their monthly returns and annual reports. What about Category D (i.e., A+H issuers relying on the bespoke 5% threshold)?
- Q2:** The proposal only requires issuers under Category B and Category C (i.e., issuers, including A+H issuers, relying on the market value-based thresholds) to state the actual public float percentage in their monthly returns. What about those relying on the percentage thresholds, namely Category A (i.e., issuers relying on the Initial Prescribed Threshold) and Category D (i.e., A+H issuers relying on the bespoke 5% threshold)? All issuers are required to disclose the actual public float percentage in their annual reports - why not in monthly returns as well (for Categories A and D)? Issuers relying on percentage thresholds will have to work out the actual public float percentage in order to include the compliance statement (or negative statement) in their monthly returns anyway.

Public float shortfalls

We agree with the Exchange's proposal to remove the current requirement to suspend trading in the shares of an issuer solely due to a shortfall in its public float below a specified threshold. Suspension deprives shareholders of their ability to trade out of their position. The proposed removal of the suspension requirement should enable an issuer to conduct on-market transactions to facilitate public float restoration in a timelier manner.

The Exchange has proposed certain obligations (action plan with expected timeline and regular disclosures) for issuers with a public float shortfall and also additional deterrents (special stock marker, low public float warning in all public documents, delisting for failure to restore public float within a prescribed remedial period) to those issuers with a Significant Public Float Shortfall. Significant Public Float Shortfall is defined in terms of a percentage or a market value threshold. If, in the opinion of the Exchange, an issuer with a public float shortfall fails to re-comply with the applicable public float requirement within a reasonable period, we note that the Exchange may exercise its discretion to take appropriate action(s) (including to subject the issuer to the additional deterrents applicable to issuers with a Significant Public Float Shortfall). We agree in principle that these proposals would be a better alternative to the current suspension requirement.

Scope of application

We agree that all existing issuers be subject to the proposed ongoing public float requirements.

Should you have any questions on our comments, please do not hesitate to contact [REDACTED]
[REDACTED]

Yours faithfully,

[REDACTED]

Certified Public Accountants
Hong Kong