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Date: 17 March 2025

By email (response@hkex.com.hk)

Communications Division
Hong Kong Exchanges and Clearing Limited
8/F., Two Exchange Square
8 Connaught Place
Central Hong Kong

Dear Sirs,

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

We refer to the Consultation Paper on **Proposals to Optimise IPO Price Discovery and Open Market Requirements** (the "**Consultation Paper**") issued by The Stock Exchange of Hong Kong Limited (the "**Exchange**") on 19 December 2024. Unless otherwise defined, all capitalised terms used in this letter shall have the same meanings as defined in the Consultation Paper.

We are supportive of this latest initiative by the Exchange to optimise the IPO price discovery process by increasing the participation of price-setting investors and refining the open market requirements, of which the Exchange believes this could attract more high-quality new listing applicants to consider listing in Hong Kong. We believe these changes could ensure that issuers maintain a sufficient number of publicly traded shares at the time of listing while relaxing certain percentage thresholds that may otherwise create excessive barriers in terms of absolute dollar value.

Set out below are our observations / comments on some of the proposals raised in the Consultation Paper.

Open market requirements

Calculation of public float

The Exchange proposed to change the public float requirement for H shares by excluding A shares listed on a PRC stock exchange from the numerator for H share companies; and in the case of an issuer with other share class(es) listed overseas, its public float at listing should be continued to be calculated as a percentage of the issuer's total number of issued shares (of all classes).

We are supportive of the proposal to calculate the public float percentage of securities new to listing by reference to the total number of securities of that class only. We are of the view that focusing on the specific class of securities being listed would provide a clearer and more relevant measure of the public float. This approach ensures that the public float reflects only those securities that will actively participate in the Hong Kong market, thereby enhancing the accuracy of the float percentage. By calculating the public float using only the shares of the

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class being listed in Hong Kong, it ensures that the assessment accurately reflects the shares that will be available for trading in that market. Further, some major international stock exchanges (such as the Australian Stock Exchange and London Stock Exchange) use this "class-based approach" when calculating public float, that means they only consider the class of shares listed on their exchange. We support this proposal as this targeted approach enhances the relevance of the public float figure for investors.

A+H issuers

For A+H issuers, in principle we agree with the Exchange's proposal to reduce the minimum threshold of the amount of H shares that A+H issuers must list in Hong Kong to either represent at least 10% of the total number of issued shares in the same class, or have an expected market value of at least HK$3 billion at listing, which must also be held by the public. As to the minimum percentage or market value to be finally adopted, the Exchange may wish to consider the feedback of the market participants and make appropriate determination.

We think the revised thresholds provide greater flexibility for A+H issuers, allowing them to choose between a percentage of the total issued shares or a market value, making it easier for companies to meet listing requirements. This approach may incentivize PRC companies to list their H shares in Hong Kong, as it provides a more accessible threshold and enhances the attractiveness of the listing. Such a focus can help raise the profile of H shares as a viable investment option for both institutional and retail investors.

IPO Pricing and Offering Mechanism

Placing tranche

The Exchange proposed that at least 50% of the total number of shares initially offered in an IPO be allocated to investors in the bookbuilding placing tranche (the portion of the placing tranche not taken up by the cornerstone investors), except for the initial listing of Specialist Technology Companies.

We believe allocating a significant portion of shares to the bookbuilding placing tranche enhances the price discovery process, as it allows institutional investors to provide feedback on demand, leading to a more accurate valuation of the IPO. A meaningful allocation to the bookbuilding tranche also signals to the market that the offering has strong institutional backing, which can instil confidence among retail investors and other market participants.

Public subscription tranche

The Exchange proposed to provide issuers the flexibility to either initially allocate 5% of its offer shares to the public subscription tranche, subject to a clawback mechanism of up to 20% (the "**Mechanism A**"), or initially allocate a minimum of 10% of its offer shares to the public subscription tranche, with no clawback mechanism (the "**Mechanism B**").

We welcome the Exchange's proposal which requires issuers to adopt either Mechanism A or Mechanism B, as it allows issuers to opt for the mechanism that best aligns with their IPO strategies, market conditions and investor base. Further, it maintains the entitlement of public investors to receive a share allocation in IPOs, while also mitigating the risk of mispricing by capping the size of these allocations. The current policy relies on demand-driven triggers, where the public allocation changes

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based on the level of demand. It requires issuers to allocate higher percentages (up to 50%) if the demand is strong. We think this approach may create uncertainty for issuers and could limit the flexibility for companies that prefer institutional investors. The proposed mechanisms allow issuers to choose between structured clawback provisions, accommodating different companies' needs and market dynamics. We believe the proposal ensures a structured and predictable allocation process, especially for Specialist Technology Companies, and it also provides greater flexibility, allowing issuers to control their public allocation without demand-based constraints. In addition, we are of the view that the proposal reduces regulatory burdens by simplifying compliance requirements. Mechanism A eliminates this uncertainty of fluctuating demand levels by prescribing fixed allocation percentages, ensuring that the companies know exactly how many shares must be allocated to the public from the outset. Meanwhile, Mechanism B, by setting a baseline requirement of 10%, prevents companies from having to engage in excessive allocation adjustments unless they choose to increase the public tranche. This reduces compliance costs and streamlines the listing process, making it more efficient for companies planning an IPO.

We are in principle supportive of this proposal as it eliminates uncertainty, increases flexibility for issuers, reduces compliance burdens, and ensures a balanced investor structure. By replacing a rigid, demand-driven allocation system with Mechanism A's fixed allocation structure and Mechanism B's flexible issuer-controlled approach, the new system allows companies to better manage their IPO allocations while still ensuring fair public participation. This change not only benefits companies seeking to list but also creates a more stable and efficient market environment for investors. As to the actual percentage to be finally adopted, the Exchange may wish to consider the feedback of the market participants and make appropriate determination.

Pricing Flexibility Mechanism

The Exchange proposed to allow issuers to set the final IPO price up to 10% above the indicative offer price range without delaying their IPO timetables.

We believe the proposal could enhance market efficiency, issuers' flexibility and investors' confidence, making the IPO process more competitive and aligning with global best practices. We hold the view that upward pricing flexibility allows issuers to adjust the offering price in response to strong market demand, ensuring that the final price reflects investors' interest and market conditions. The proposal would give public offer subscribers the option to choose whether to participate in the pricing flexibility mechanism based on their risk tolerance. It would also allow them to withdraw from an IPO if the revised offer price leads to a valuation that no longer aligns with their expectations.

We would like to respectfully request that our identity be kept confidential and prefer not to disclose our identity to members of the public.

Should the Exchange wish to discuss any of our comments, please do not hesitate to contact our [redacted].

Yours faithfully,

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