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The Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

Attention: Ms. Stephanie LAU / Ms. Catherine YIEN / Ms. LC WONG

March 19, 2025

Dear Sirs and Madams,

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

We refer to the consultation paper dated December 19, 2024 (the “**Consultation Paper**”) in which The Stock Exchange of Hong Kong Limited (the “**Exchange**”) seeks market feedback on proposals to reform the regulatory framework relating to IPO price discovery and open market requirements. Fangda Partners together with Shenwan Hongyuan Securities (H.K.) Limited and Shenwan Hongyuan Capital (H.K.) Limited (“**SWHY**”) are pleased to submit this response to certain proposals made in the Consultation Paper. Capitalized terms used in this submission but not defined herein are used as defined in the Consultation Paper.

We welcome the Exchange's initiative to re-evaluate the existing regulatory framework with respect to matters such as public float, free float, requirements relating to A+H share issuers and the general IPO offering mechanism, among others. We note that some aspects of the existing regulatory framework have been in place for many years, and the market has in the meantime become increasingly sophisticated, such that reform of the regulatory framework can be expected to enhance the competitiveness of the Hong Kong listed securities market. Accordingly we are in agreement with most of the proposals made in the Consultation Paper. To the extent that we have substantive comments, our views are set forth in the Appendix to this submission.

If you have any questions regarding these comments, please do not hesitate to contact any of the following:

SWHY		
Fangda Partners		

Yours faithfully,

Fangda Partners
Shenwan Hongyuan Securities (H.K.) Limited
Shenwan Hongyuan Capital (H.K.) Limited

APPENDIX

Consultation Paper on Proposals to Optimise IPO Price Discovery and Open Market Requirements – Responses to Selected Questions

Chapter 1: Key Proposals

I. Open Market Requirements

B. Public Float Thresholds and Disclosure

B.1 Initial Public Float Thresholds

Question 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?

- Yes or No

Yes

- Please give reasons for your views and any alternative suggestions.

We agree that the current minimum initial public float thresholds should be replaced with tiered initial public float thresholds for the reasons stated in paragraphs 69-77 of the Consultation Paper.

Question 3.2

Do you agree with the proposed tiered initial public float thresholds (as set out in Table 5 of the Consultation Paper)?

- Yes or No

No

- Please give reasons for your views and any alternative suggestions.

We respectfully submit that the threshold market capitalization at which the required initial free float percentage is reduced to 15% should be lowered from HK\$6 billion (as proposed in the Consultation Paper) to HK\$4 billion. This would align with the market capitalization requirement for large cap Main Board listings under Listing Rule 8.05(3). Under current market conditions, requiring an initial public float of HK\$1.5 billion is still challenging for many prospective IPO candidates, and in the case of a prospective IPO candidate with a market capitalization in the range of HK\$4 billion to HK\$6 billion, a new issue of HK\$1 billion would still represent a fair amount of public float. Accordingly, we

respectfully submit that Row B in Table 5 of the Consultation Paper should be amended 1) by striking “HK\$6 billion” and inserting “HK\$4 billion” and 2) by striking “HK\$1.5 billion” and inserting “HK\$1 billion.”

B.2 Ongoing Public Float Requirements

Question 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)?

- Yes or No

Yes

- Please give reasons for your views.

We agree that issuers should be allowed the flexibility to maintain a lower public float level after listing for the reasons stated in paragraphs 102-114 of the Consultation Paper.

We respectfully submit that allowing flexibility for issuers to maintain a lower public float level after listing would enable issuers to plan on corporate activities (e.g. share repurchase / buy-back) and introduce liquidity to the market without being unduly constrained by the need to maintain the minimum initial level of public float.

Question 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)?

- Yes or No

No

- Please give reasons for your views.

We respectfully submit that the existing regulatory approach of suspending trading of issuers with public float below a prescribed level should be relaxed in certain circumstances.

As discussed in our response to in Question 5.1 below, we agree that listed issuers should be required to disclose the actual public float in their respective interim and annual reports. Such disclosure would serve as a caveat emptor, and would enable investors to make a well-informed decision when trading with the shares of such listed issuers.

The threshold triggering a trading suspension could be of a sliding scale. In the event that the listed issuer only falls slightly short of the prescribed level of public float, the listed issuer could be allowed to rely on its caveat emptor statement, and its shares would continue to trade on the Stock Exchange. In the event that a listed issuer's level of public falls far below the prescribed level, the Stock Exchange could consider retaining the existing regulatory approach of requesting restoration of the required public float and /or issuing a warning statement to supplement the issuer's disclosure concerning public float. Only in the most extreme cases, where an issuer's public float falls far below the required level for an extended period of time due to actions taken by the issuer itself (such as share buy-backs), should the Stock Exchange consider delisting. Where an issuer's public float falls below the required level due to actions taken by third parties (such as offers under The Codes on Takeovers and Mergers and Share Buy-backs), a waiver regime should apply, and in general a combination of (i) mandatory disclosure by the issuer concerning the level of public float and (ii) warning statements issued by the Stock Exchange should be the preferred method of dealing with such shortfalls in public float.

Question 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)?

- Yes or No

No

- Please give reasons for your views and any alternative suggestions.

We respectfully submit that an OTC market should not be established in Hong Kong. An OTC market often is not a regulated exchange and is subject to less stringent requirements. These features may not be well suited for the overall securities market in Hong Kong where 1) retail investor participation is high and 2) as a matter of public policy, investor protection is achieved primarily by means of regulation rather than issuer liability to investors for untrue or misleading disclosure (as in the US securities markets).

B.3 Ongoing Public Float Disclosure

Question 5.1

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

- Yes or No

Yes

- Please give reasons for your views and any alternative suggestions.

We believe that requiring periodic disclosure of the actual public float in the listed issuers' interim reports and annual reports will enable investors to have increased transparency as to potential volatility of such listed issuers' shares. Further, the disclosure serves as a caveat emptor, and would enable investors to make a well-informed decision when trading in the shares of such listed issuer.

C. Initial Free Float Requirement

Question 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)?

- Yes or No

Yes

- Please give reasons for your views.

For the reasons stated in paragraphs 136 and 137, we agree that a “minimum free float in public hands” requirement is appropriate.

Question 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)?

- Yes or No

No

- Please give reasons for your views.

We believe that an initial free float which is the lower of 1) 10% of the number of shares in the relevant class for which listing is sought and 2) HK\$600 million may be challenging for some IPOs where marketing and bookbuilding is focused on strategic investors and cornerstone investors.

In addition, we are concerned that a high percentage requirement for initial free float would result in (a) a lower-than-market-expected cornerstone participation and (b) a negative effect on lock-up arrangement with the existing investors.

- (a) Given all newly capitalized H-shares held by existing shareholders before IPO are subject to a one-year lock-up as required by PRC Company Law, all initial free float in such cases would come from IPO investors excluding cornerstone investors.

- (b) For red chips, existing investors before IPO are only subject to lock-up arrangements from a commercial perspective, subject to negotiation with the issuer. As such, and to fulfil the initial free float requirement, no lock-up arrangement becomes a possible alternative.

Either (a) or (b) alone could discourage investors, especially in a bearish market.

In general, we believe that initial free float alone does not represent liquidity; rather, it represents selling power, which has to be matched by purchasing power for liquidity.¹

To address the foregoing concerns, we respectfully submit that the percentage threshold in the first prong of the proposed initial free float requirement should be lowered from 10% to 2%, and that the market value threshold in the second prong of the proposed initial free float requirement should be lowered from HK\$600 million to HK\$200 million. For a “large cap” IPO candidate with a market cap of HK\$4 billion, an IPO representing a 25% new issue would amount to HK\$1 billion, and a HK\$200 million initial free float would still provide ample securities available for public trading on the Exchange.

In addition, we respectfully submit that the Exchange should provide for a “grace period” with respect to implementation of the proposed initial free float requirement. This would enable the market to adapt and would diminish the impact of the rule change on existing deal pipelines.²

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

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

Question 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)?

- Yes or No

Yes

¹ Of the 67 IPOs on the Main Board of the Stock Exchange in 2024, 32 had an “initial offer share (before over-allotment option) / TSO post IPO” ratio of less than 10%. For example, Minieye (2431 HK), with IPO (prior to over-allotment option) sized at HK\$666 million and an offer ratio of 9.8%, attracted 2 cornerstone investors which took up HK\$540 million or 81% of the offer shares. Therefore, total initial free float was HK\$126 million or 1.85%. i.e., it would not have been listed under the proposed initial free float requirement of 10% or HK\$600 million. Yet Minieye has had decent daily trading velocity of 0.14% since listing, exclusive of trades on the listing date.

² This grace period should also be tailored to ensure that any proposed H-share companies that have already applied to the international department of the China Securities Regulatory Commission for approval of their listing on the Exchange will be permitted to use the issuance ratio contained in that application.

- Please give reasons for your views and any alternative suggestions.

For the reasons stated in paragraphs 158-161, we agree that a revised minimum threshold on shares to be listed on the Exchange for A+H issuers and other prescribed types of issuers is appropriate.

We believe that a lower minimum threshold would better incentivize the A-share issuers to consider listing in Hong Kong as the smaller required H share offer size would offer them flexibility and may better fit their commercial needs at the moment. We would also suggest expanding the application of this proposal to existing A+H issuers to increase market liquidity.

II. IPO Offering Mechanism

C. Allocation to the Public Subscription Tranche

Question 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)?

- Yes or No

Yes

- Please give reasons for your views and any alternative suggestions

For the reasons stated in paragraphs 242 to 247 of the Consultation Paper, we generally support the idea of changing the minimum allocation of offer shares to the public and reducing the percentages that are clawed back to the public offer tranche depending on the level of oversubscription in the public offer tranche. In particular for “branded corporations” or mega size listed issuers, it is highly appropriate to provide them with a significant degree of certainty as to the composition of their shareholder base (in particular, sophisticated or strategic investors) to reduce exposure to volatility. This also aligns with practices in international markets (e.g., in the US stock markets), where issuers have greater certainty about the composition of the shareholder base.

We note that, on the issuer side, issuers that opt for Mechanism A may be viewed by retail investors as lacking confidence in the placing tranche.

On the investor side, Mechanism B provides less protection for the interests of retail investors. We believe this may result in retail investors flooding towards IPOs of issuers that have selected Mechanism B, such that the subscription level in the public subscription tranche and the allocation to that tranche would end up being negatively correlated.

III. Pricing Flexibility Mechanism

Question 13.1

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

- Yes or No

Yes
- Please give reasons for your views and any alternative suggestions.

For the reasons stated in paragraphs 273 to 276 of the Consultation Paper, we agree that the existing price flexibility mechanism should be amended. In this context we believe that the “opt-in” mechanism described in paragraph 283 of the Consultation Paper would be crucial. Since the time between listing and pricing is short, the effect of the price change on the level of subscription in the public subscription tranche (and consequently the number of shares to be allocated to the placing tranche) needs to be determined in a very short time.

Question 13.2

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

- Yes or No

Yes

Question 13.3

If your answer to Question 13.1 is ‘yes’, in respect of the 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)?

We suggest adopting Option A, where the top of the initial offer range remains not more than 30% of the bottom of that range.