

### **Overall comments**

One the whole, the HKEX should stay confident that given the strong IPO pipeline for HKEX, it should not give the impression it's trying hard to welcome mega cap new applicants to list on the Exchange. Indeed, it's the market conditions and depth of the market that decide whether these companies would consider listing in HK. Put it differently, when the Hong Kong stock market isn't so hot, it's difficult to attract mega companies to list in HK even with these newly proposed rules anyway.

There are some proposals that are quite welcoming. For instance, the proposals under "ongoing public float" and "Free float" are sensible recommendations to improve liquidity to help with making investments from Long Only funds' perspectives. It's important to ensure that the Hong Kong market should have more practices that are supportive of Long Only funds' investment and not just to support Hedge Funds, which spikes market volatility without supporting long termism to investing.

Going forward, we would welcome to see a situation where the HKEX requires companies to state a more precise guidance on shareholder return policy: for example, listing applicants should have a set roadmap towards a clear shareholder return policy (being the sum of dividend payout and share buyback). If there's no such rule, then companies can answer they don't have such. However, to the extent the Exchange encourages this type of guidance, it would make the HK market a more investor friendly market in terms of transparency and increased certainty.

### **IPO Price Discovery**

- 1) **Regulatory lock-up on cornerstone investment:** The HKEX seeks feedback on whether to retain the current 6-month lock-up period for cornerstone investors or to introduce a staggered lock-up release mechanism: 50% locked-up for 3 months and 50% locked-up for 6 months.
  - **Answer:** retaining the 6-month lock up period for cornerstone investors encourages long termism. Otherwise, it will easily encourage short term capital from being a cornerstone investor, which could then attract other investors to participate in the IPO due to the cornerstone investors' reputation. And if cornerstone investors are permitted to sell after a short 3 month period, what's the points of having the cornerstone investor other than attracting others to participate in the IPO? We believe that if the cornerstone investor were to be serve the purpose of being a cornerstone investor, it should at least commit a 6 month holding period.
- 2) **Placing tranche:** A minimum of 50% of IPO shares must be allocated to the book building placing tranche (the portion of the placing tranche not taken up by cornerstone investors) to ensure robust price discovery.
  - **Answer:** Yes, agree. We have had the pain in the recent past that after doing a lot of research work in Midea's Hong Kong IPO, we were only allocated a pea sized number of shares, which pretty much wasted the amount of work we have dedicated to the Midea H share IPO research.

- 3) **Public subscription tranche:** Two mechanisms are proposed for allocation of shares to the public subscription tranche: (1) initially allocate 5% offer shares (compared to the current requirement of 10%) to the public subscription tranche, subject to a clawback mechanism of up to 20% (compared to the current requirement of a clawback mechanism of up to 50%); or (2) initially allocate a minimum of 10% offer shares to the public subscription tranche, with no clawback mechanism, aiming to balance investor participation and price stability. The HKEX also proposes to retain the allocation cap to minimise the risk of public subscription tranche investors being “stuffed” with IPO shares at undesirable prices, with a revised maximum allocation cap percentage threshold lowered from 30% to 15%.
- **Answer:** we opt for Mechanism B: Minimum initial allocation of 10% of the offer shares to the public subscription tranche without clawback mechanism. Otherwise, there’s too few shares to be received when we decide to participate.
- 4) **Pricing flexibility mechanism:** The HKEX proposes to expand the existing pricing flexibility mechanism to allow upward and downward adjustments of the final offer price by up to 10% from the indicative offer price or the top/bottom of the offer price range, providing issuers with greater flexibility to respond to market conditions.
- **Answer:** Disagree with this proposal. Offering this type of pricing range pretty much would require investor to have 50% potential upside to our price target when we do our research. Hong Kong is not a Frontier Market, and the HKEX shouldn’t be an agent to promote further stock market volatility. Are we so free to move the discount rate for cash flow streams as to get this wide of an upside? We can’t be flipping a switch and convince ourselves that the upside ranges from 50% to 70%, so that after removing the 30% margin of error, we are left with 20% to 40% upside. We need to place more responsibility on the issuer and their sponsors to do more work to identify the suitable price range.

#### **Open Market requirements**

- 1) **Calculation of public float:** The public float percentage of securities new to listing will be calculated based on the total number of that class of securities only.
- **Answer:** Disagree. This proposal would give the wrong impression that the company’s stock is more liquid than it really is.
- 2) **Initial public float:** A tiered approach to initial public float thresholds is proposed, ranging from 5% to 25%, depending on the expected market value of the relevant class of securities at the time of listing.
- **Answer:** Disagree.
- 3) **Ongoing public float:** The HKEX seeks views on appropriate ongoing public float requirements, proposes to enhance annual public float disclosure requirements for increased transparency and seeks views the potential establishment of an over-the-counter (OTC) market in Hong Kong.
- **Answer to public float disclosure:** Agree. This improves the corporate governance of the Hong Kong stock market.
  - **Answer to establishment of an OTC market:** Disagree. We don’t participate in the OTC market, which usually presents higher investment risks.

- 4) **Free float:** New applicants must ensure that a portion of shares in public hands is free from disposal restrictions at the time of listing, representing at least 10% of the total issued shares or an expected market value of over HK\$600 million.
- **Answer:** Agree.
- 5) **A+H issuers:** The minimum threshold of the amount of H shares that A+H issuers must list in Hong Kong is proposed to be reduced: either representing at least 10% of the total number of issued shares in the same class (compared to the current requirement of 15%), or having an expected market value of at least HK\$3 billion at listing, which must also be held by the public, while ensuring this amount is large enough to attract a critical mass of investor interest and form a sufficient public float.
- **Answer:** Disagree. We would like to propose maintaining the 15% requirement, which isn't a lot for a dual listing company. Why would we want to welcome a new H share participant who is so non-committal to listing in HK? Listing a higher percentage of issued shares in Hong Kong helps Hong Kong in lifting its market cap, stamp duties, fees, which will be positive for HKEX. We believe the HKEX should insist on staying the status quo on this.