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New open market requirements and IPO offering mechanisms in Hong Kong

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The Hong Kong Stock Exchange ("HKEx") concluded a major consultation and implemented, effective from 4 August 2025 (the "implementation date"), a series of reforms aimed at optimising IPO price discovery and open market requirements. HKEx is also seeking public views on public float proposals.

Major changes

The listing rule changes apply to all existing listed companies and new applicants with prospectuses published on or after 4 August 2025.

Public float. Each Hong Kong listed company and new listing applicant must maintain an "open market" for their listed securities. Thus, HKEx requires a minimum percentage of listed securities to be held by the public (public float), i.e. not held by the listed company's core connected persons (e.g. holders of 10% of more shareholding, directors and their close associates) and not financed by the listed group or any core connected person. Before the implementation date, the public float is 25% of the total number of issued shares, or 15% to 25% if the expected market capitalisation is over HKD10 billion at listing.

From the implementation date onwards:

(1) For companies with a single class of shares or PRC companies without other listed shares, the public float requirement is 25% if the market value of all listed securities is HKD6 billion or less. If the market value is more than HKD6 billion up to HKD30 billion, the public float must be the higher of (i) the percentage that would result in the market value of listed securities in public hands to be HKD1.5 billion at time of listing, and (ii) 15%. For market value of above HKD30 billion, the public float must be the higher of (i) the percentage that would result in the market value of listed securities in public hands to be HKD4.5 billion at time of listing, and (ii) 10%. HKEx may permit a lower public float, on a case-by-case basis, if the market value significantly exceeds HKD45 billion.

(2) For PRC companies with other listed shares (e.g. A shares listed on a mainland stock exchange), H shares in public float must be 10% or is of at least HKD3 billion in market value at listing.

Free float. To foster the open market requirement, HKEx introduces a new concept of "free float" effective from the implementation date. It refers to securities available for trading upon listing, and normally means the securities held by the public and not subject to disposal restrictions.

(1) For listed companies with a single class of shares or PRC companies with no other listed shares, the listed shares in free float must (i) be at least 10% of the total issued shares listed on HKEx with market value at listing of at least HKD50 million for Main Board and HKD15 million for GEM, or (ii) have a market value of not less than HKD600 million at listing.

(2) For PRC companies with other listed shares, the H shares in free float must (i) be at least 5% of the total issued shares in the class to which H shares belong (usually meaning H shares and A shares together) with market value at listing of at least HKD50 million for Main Board and HKD15 million for GEM, or (ii) have a market value of not less than HKD600 million at listing.

IPO offering mechanism. At least 40% of the offered shares must be allocated to investors in the placing tranche (other than cornerstone investors). In respect of the public subscription tranche, the IPO applicant may select:

(1) an initial 5% of offered shares allocated to the public subscription tranche (if demand in that tranche reaches 15 times but is less than 50 times, the allocation increases to 15%; if demand reaches 50 times but is less than 100 times, it rises to 25%; and if demand hits 100 times or more, the allocation must increase to 35%); or

(2) a minimum initial allocation of 10% and a maximum of 60% of the offered shares to the public subscription tranche with no clawback mechanism.

Further consultation

HKEx is seeking public views on ongoing public float issues.

HKEx proposes that all listed companies be subject to a more flexible ongoing public float requirement. Apart from the above-mentioned public float percentages that took effect on the implementation date, the public float requirement can also be satisfied if shares in public hands (i) have a market value of at least HKD1 billion and (ii) represent at least 10% of the total number of issued shares of the same class as HK listed shares (or, for a PRC company with other listed shares, 5% of the PRC company's total number of issued shares in the class to which H shares belong). All listed issuers will have to confirm compliance with their ongoing public float thresholds in their monthly returns and annual reports.

A listed company which fails to meet the public float requirement will not be required to suspend trading of its shares, but must make announcements on such breach, its plan to restore public float and status of such restoration plan.

A situation will be classified as a "significant public float shortfall" if (i) the public float falls below 15% or, where a lower initial public float threshold is permitted at listing, below 50% of that threshold and (ii) the market value of public float shares is less than HKD500 million or represents under 5% of the issuer’s total issued shares in the class of the listed shares. In such cases, the HKEX will impose a special stock marker on the listed securities, and the issuer will be required to make additional disclosures.

If the company with a significant public float shortfall fails to restore its public float within 18 months for Main Board (or 12 months for GEM), it will be delisted.

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