



**PROPOSED CHANGE TO THE MINIMUM NUMBER OF SHAREHOLDERS FOR
THE MARKET CAPITALISATION/REVENUE TEST**

Consultation Questions

1. *Should the Exchange remove MB Listing Rule 8.05(3)(f) and make a consequential amendment to MB Listing Rule 8.08(2) to require a minimum number of 300 shareholders for the Market Capitalisation/Revenue Test?*

Law Society's Response: Yes

Please provide reasons for your views.

As noted in the Consultation Paper, companies listing under the market capitalisation/revenue test (i.e. larger companies that are unable to meet the profit or cash flow requirements of the other eligibility tests and may have a track-record period of less than 3 years) are potentially "riskier" investments than companies listed under the other tests and may therefore be best suited to investment by institutional investors. The 1,000 shareholder requirement, which apparently necessitates substantial retail as well as institutional participation (Consultation Paper at paragraph 24), runs counter to that logic.

The requirement for substantial retail investor interest, additionally makes it difficult for a market capitalisation/revenue test listing applicant to be certain, at the start of the listing process, that it will meet the listing criteria. The ability to attract significant investor interest, which was the reason for the imposition of the higher shareholder qualification for this test, depends not only on the quality of the issuer but on other factors unrelated to the particular issuer, such as general market conditions and sentiment.

Finally, the existing requirement for a HK\$1 billion public float market capitalisation and the proposed 300 shareholder requirement should be adequate to meet the primary objective of ensuring an open market in the issuer's shares.

2. *If your answer to question 1 is "Yes", do you agree that the proposed draft Rule amendments in Appendix II to the Consultation Paper will implement our proposal?*

Law Society's Response: Yes

3. *Are there any other comments you would like to make?*

Law Society's Response: No further comments.

**The Law Society of Hong Kong
Securities Law Committee
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