

The Stock Exchange of Hong Kong Limited

Practice Note 20

to the Rules Governing the Listing of Securities
(the “Exchange Listing Rules”)

Issued pursuant to rule 1.06 of the Exchange Listing Rules

ALLOCATION OF SECURITIES SUBSCRIBED FOR BY AN ISSUER’S EMPLOYEES IN CONJUNCTION WITH ITS INITIAL SHARE OFFER (“Pink Form Allocation”)

1. Definitions

Terms used in this Practice Note which are defined or interpreted in the Exchange Listing Rules shall have the same meaning as in the Exchange Listing Rules.

In this Practice Note, the following term, save where the context requires otherwise, has the following meaning:

“Pink Form” refers to the form used for subscription by employees in conjunction with an issuer’s initial share offer.

2. General

The Exchange is minded to ensure that securities allotted to an issuer’s employees in connection with Pink Form applications are allotted on a fair basis. In this regard, the Exchange will apply the guidelines set out in new Practice Note 20 in assessing the fairness of the basis of Pink Form Allocation. Issuers are notified that the following guidelines are not exhaustive and that the Exchange reserves the right to consider other factors as appropriate in particular circumstances.

3. Pink Form Allocation Guidelines

- (a) The Issuer shall demonstrate the fairness of the basis of allocation. The basis of allocation shall be fully disclosed in the Prospectus. The factors underlying any subjective basis of allocation adopted by the Issuer shall be set out in the Prospectus to the extent reasonably possible. The Issuer is advised to consult the Exchange in advance in respect of these matters.
- (b) The Issuer shall issue written guidance to all employees on the allocation of shares under the Pink Form application detailing the basis of allocation.
- (c) The Issuer shall not accept application from employees for shares in excess of the number available under the Pink Forms. All applications in excess of the shares available under the Pink Form shall be rejected. Such information shall also be included as one of the conditions on the Pink Form application.
- (d) If a “scale down” ratio formula is used by the Issuer to determine the allotment of shares to employees, such ratio shall be applied in an equitable manner and shall not favour employees applying for a large number of shares.
- (e) The Issuer shall include in the announcement of the results of allotment any exception(s) noted in the Pink Form Allocation.

4. Effective Date

This practice note takes effect from 15 June, 2000

Hong Kong, 1 June, 2000