

The Stock Exchange of Hong Kong Limited

Practice Note 6

to the Rules Governing the Listing of Securities on GEM
of The Stock Exchange of Hong Kong Limited
(the "GEM Listing Rules")

Issued pursuant to rule 1.07 of the GEM Listing Rules

Initial Public Offer of Securities

Definitions

1. Terms used in this Practice Notice which are defined or interpreted in the GEM Listing Rules shall have the same meaning as the GEM Listing Rules.

Introduction

2. This practice note sets out certain procedures to be adopted in the allocation of shares in initial public offerings.

Allocation of shares

3. The total number of securities available for public subscription (taking account of any clawback feature in the case of issues which involve both placement and public subscription tranches) are to be divided equally into pools: pool A and pool B. The securities in pool A should be allocated on an equitable basis to applicants who have applied for securities in the value of HK\$5 million or less. The securities in pool B should be allocated on an equitable basis to applicants who have applied for securities in the value of more than HK\$5 million and up to the value of pool B. Where one of the pools is undersubscribed, the surplus securities should be transferred to satisfy demand in the other pool and be allocated accordingly. No applications should be accepted from investors applying for more than the total number of shares originally allocated to each pool. Multiple applications within either pool or between pools should be rejected.

Offers involving a subscription tranche

4. Where an IPO includes both a placing and a public subscription tranche, the minimum allocation of shares to the subscription tranche shall be as follows:
 - an initial allocation of not less than 10% of the shares offered in the IPO;
 - a clawback mechanism that increases the number of shares to 30% when the total demand for shares in the subscription tranche is 15 times but less than 50 times the initial allocation;
 - a clawback mechanism that increases the number of shares to 40% when the total demand for shares in the subscription tranche is 50 times but less than 100 times the initial allocation; and
 - a clawback mechanism that increases the number of shares to 50% when the total demand for shares in the subscription tranche 100 times or more of the initial allocation.

Shares may be transferred from the subscription tranche to the placing tranche where there is insufficient demand in the subscription tranche to take up the initial allocation.

5. Where the issuer has granted the underwriters an over-allotment option this may be divided between the public subscription tranche and placing tranche at the discretion of the underwriters. Underwriters should restrict the extent of any over-allocation of shares to the limit provided under the over-allotment option.
6. Before trading in the shares commences, issuers should disclose the level of indications of interest for shares in the placing tranche. This may be provided in either a numerical form or by way of a qualitative description.
7. Investors are free to select whether to apply in the placing tranche or the subscription tranche. Where the placing tranche and the subscription tranche are completed simultaneously an investor may submit an application in one of the pools in the subscription tranche and indicate an interest for shares in the placing tranche. An investor may only receive shares in the placing tranche or the subscription tranche. Any investors which have not received shares in the placing tranche may receive shares from the subscription tranche.
8. Issuers should reject multiple applications within either pool or between pools. Issuers, their directors, sponsors and underwriters are required to take reasonable steps to identify and reject applications in the subscription tranche from investors that received shares in the placing tranche, and to identify and reject indications of interest in the placing tranche from investors that received shares in the subscription tranche. Investors which have not received shares in the subscription tranche may receive shares in the placing tranche.

Disclosure

9. Sponsors should ensure that details of these procedures are included in prospectuses.