

## HKEX GUIDANCE LETTER

HKEX-GL85-16 (January 2016) (Last updated in August 2022)

<b>Subject</b>	<b>Placing to connected clients, and existing shareholders or their close associates, under the Rules</b>
<b>Listing Rules and Regulations</b>	<b>Main Board Rules 2.03(2) and (4), 10.03, 10.04 and 19A.04 Paragraphs 5(1) and (2), and 13 of Appendix 6 to the Main Board Rules GEM Rules 2.06(2) and (4), 10.12(1A)(a) and (b), 13.02(1), 25.04 and note 2 of GEM Rule 10.12(4) Guidance Letters HKEX-GL51-13, HKEX-GL92-18 and HKEX-GL110-21 Listing Decision HKEX-LD44-2  Guidance Letter HKEX-GL75-14 and Listing Decision HKEX-LD90-1 (superseded by this letter)</b>
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**Important note:** *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules or this letter.*

### 1. Purpose

1.1 This letter provides guidance in cases where prior written consent (“**Consent**”) under paragraphs 5(1) and (2) of Appendix 6 to the Rules (the “**Main Board Placing Guidelines**”) (GEM Rule 10.12(1A)(a) and (b)) is sought when (a) overall coordinators, syndicate members (other than overall coordinators) or any other distributors (collectively, “**Distributors**”) place securities of a listing applicant to their connected clients (as defined in paragraph 13 of the Main Board Placing Guidelines and note 2 of GEM Rule 10.12(4)) who in turn will hold such securities (i) on behalf of independent third parties; or (ii) for their proprietary accounts; and (b) a listing applicant’s existing shareholders or their close associates participate either as cornerstone investors<sup>1</sup> or as placees in initial public offerings (“**IPOs**”). It supersedes Guidance Letter HKEX-GL75-14 and Listing Decision HKEX-LD90-1. **(Last updated in August 2022)**

### 2. Summary

2.1 Connected clients, whether or not holding securities on behalf of independent parties, and existing shareholders or their close associates cannot participate both as a cornerstone investor and as a placee.

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<sup>1</sup> A cornerstone investor generally refers to an investor who is allocated IPO shares under the placing tranche on an assured basis and who usually agrees to restrictions on share disposal.

- 2.2 Connected clients and a listing applicant's existing shareholders or their close associates are permitted to participate either as cornerstone investors or as placees in IPOs subject to certain conditions set out in this letter. The connected clients addressed in this letter are connected clients holding securities on a discretionary or a non-discretionary basis on behalf of independent third parties<sup>2</sup>. No Consent will be given for allocation of securities to a connected client for its proprietary account unless under exceptional circumstances which will be considered on a case-by-case basis.
- 2.3 To address any actual or perceived preferential treatment given to:
- (a) connected clients holding securities on a non-discretionary basis on behalf of independent third parties, the Non-discretionary Basis Conditions should be complied with (see paragraph 4.9);
  - (b) connected clients holding securities on a discretionary basis on behalf of independent third parties, the Discretionary Basis Conditions should be complied with (see paragraph 4.11); and
  - (c) a listing applicant's existing shareholders or their close associates, the Existing Shareholders Conditions should be complied with (see paragraph 4.20). The Existing Shareholders Conditions are not applicable to (i) Biotech Companies set out in paragraph 4.27; and (ii) close associates of existing shareholders who are PRC governmental bodies under Main Board Rule 19A.04 (GEM Rule 25.04) under the circumstances set out in paragraph 4.28. **(Updated in February 2018 and April 2020)**
- 2.4 You can refer to paragraph 4.29 of this letter for a summary of the parties and confirmations to be provided to the Exchange under the Non-discretionary Basis Conditions, Discretionary Basis Conditions and Existing Shareholders Conditions when seeking Consent.
- 2.5 Where securities are allocated to independent third parties but the asset manager of such independent third parties is a member of the same group of companies as a Distributor, the Exchange considers that the Discretionary Basis Conditions should also be met to address the actual or perceived preferential treatment given to such independent third parties by virtue of the relationship between the asset manager and the connected Distributor. **(Updated in February 2018)**
- 2.6 Requests for Consent should be made in a timely manner so as to avoid any unnecessary delay in a listing applicant's listing timetable. Requests for Consent may be made through overall coordinators and copied to the sponsors. Alternatively, requests should be submitted by the Connected Distributor directly and copied to the overall coordinators and sponsors. In any event, sponsors would remain responsible for overseeing compliance with the relevant requirements under the Rules, including but not limited to ensuring that a Consent application is made where required under this guidance letter. **(Updated in August 2022)**

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<sup>2</sup> In relation to a connected client who is an individual, an "independent third party" refers to any party other than (i) the connected client itself; and (ii) a close associate of the connected client. In relation to a connected client which is a company or partnership, an "independent third party" refers to any party other than (i) the connected client itself; (ii) any fellow subsidiary of the connected client; (iii) parties which can exert significant influence on the connected client (e.g. the third party is a director of the connected client); and (iv) parties on which the connected client can exert significant influence (e.g. the connected client holds 20% or more shareholdings in the third party). **(Added in March 2021)**

### 3. Relevant Rules or Principles

- 3.1 Main Board Rules 2.03(2) and (4) (GEM Rules 2.06(2) and (4)) require the issue and marketing of securities to be conducted in a fair and orderly manner, and that all holders of listed securities be treated fairly and equally. **(Updated in February 2018)**
- 3.2 Paragraphs 5(1) and (2) of the Main Board Placing Guidelines (GEM Rules 10.12(1A)(a) and (b)) state that no allocations will be permitted to “connected clients” of the Distributors, and listing applicants’ existing shareholders or their close associates, unless the conditions set out in Main Board Rules 10.03 and 10.04 (GEM Rules 13.02(1)) are fulfilled, without Consent. **(Updated in February 2018)**
- 3.3 Paragraph 13(7) of the Main Board Placing Guidelines (Note 2(g) of GEM Rule 10.12) states that “connected clients” in relation to an Exchange participant include any client of such member who is a company which is a member of the same group of companies as such Exchange participant. **(Updated in February 2018)**
- 3.4 Main Board Rule 10.04 (GEM Rule 13.02(1)) provides that a person who is an existing shareholder of an issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a listing applicant if the conditions in Main Board Rules 10.03(1) and (2) (GEM Rules 13.02(1)(a) and (b)) are fulfilled:
  - (a) that no securities are offered to the existing shareholder on a preferential basis and no preferential treatment is given to the existing shareholder in the allocation of the securities; and
  - (b) that the minimum prescribed percentage of public shareholders required by Main Board Rule 8.08(1) (GEM Rules 11.23(7) and (9)) is achieved. **(Updated in February 2018)**
- 3.5 The Main Board Placing Guidelines (GEM Rule 10.12(1A) and Main Board Rules 10.03 and 10.04 (GEM Rule 13.02(1)) are to ensure that:
  - (a) the placing tranche distribution is as wide as possible to independent and genuine investors who represent genuine demand for securities in a listing applicant; and
  - (b) the distribution is not frustrated by the allocation of securities to Exchange participants or their associates, and that persons cannot take advantage of their position to allocate or withhold a material amount of securities for their own benefit at the expense of other placees and the public. **(Updated in February 2018)**
- 3.6 Main Board Rule 19A.04 (GEM Rule 25.04) states that PRC governmental body includes PRC central government, PRC provincial-level governments and PRC local governments immediately under the PRC provincial-level governments. However, PRC governmental body excludes any entities which are engaging in commercial business or operating another commercial entity. **(Updated in February 2018)**

## 4. Guidance

### ***Connected Clients***

#### Connected Clients Participating as Cornerstone Investors or Placees

- 4.1 Connected clients, whether or not holding securities on behalf of independent parties, cannot participate both as a cornerstone investor and as a placee.
- 4.2 No Consent will be given for allocation of securities to a connected client for its proprietary account unless under exceptional circumstances which will be considered on a case-by-case basis.

#### Connected Clients holding securities on behalf of Independent Third Parties who are Cornerstone Investors or Placees

- 4.3 The Distributors may, from time to time, allocate securities to their connected clients engaging in asset management business who may hold the securities on a discretionary or non-discretionary basis on behalf of independent third parties.
- 4.4 Although the connected clients only hold the securities on behalf of independent third parties, such proposed allocations are technically allocations to connected clients under the Main Board Placing Guidelines (GEM Rule 10.12(1A)(a)) and therefore require Consent. ***(Updated in February 2018)***
- 4.5 Each application will be considered on a case-by-case basis having regard to all relevant facts and circumstances. However, the Exchange will ordinarily give its Consent for allocation of securities to connected clients if it is satisfied that: (a) the allocation to connected clients represents genuine demand for securities in a listing applicant; and (b) the connected clients have not taken/ will not take advantage of their position to receive an allocation for their own benefit at the expense of other placees or the public – i.e. that no actual or perceived preferential treatment has been given to such connected clients. ***(Updated in August 2022)***
- 4.6 Notwithstanding that cornerstone investors are assured of receiving an allocation of securities and that the assured allocation for cornerstone investments gives preferential treatment to cornerstone investors vis-a-vis other IPO investors, the Exchange considers that such preferential treatment will not violate the fair and equal treatment requirement under Main Board Rules 2.03(2) and (4) (GEM Rules 2.06(2) and (4)) if cornerstone investments by connected clients follow the principles set out in Guidance Letter HKEX-GL51-13 and the conditions set out in sections A or B, depending on the nature of the connected client. ***(Updated in February 2018)***
  - A. Connected Clients holding securities on a **Non-discretionary** Basis on behalf of Independent Third Parties who are Cornerstone Investors or Placees
- 4.7 Non-discretionary asset managers hold securities on behalf of independent third parties but only act on instructions from these investors.
- 4.8 If such asset manager is a connected client, the risk of it leveraging its relationship with connected Distributors to obtain actual or perceived preferential treatment is considered to be low. This is because the asset manager is acting only as a pass through, simply

aggregating orders placed by its clients, and not exercising any decision-making authority over the size of the order or its distribution among its client accounts. In such cases, the Exchange is prepared to look through the asset manager and treat the underlying investors as the persons receiving the allocation.

4.9 Although each application will be considered on a case-by-case basis having regard to all relevant facts and circumstances, the Exchange considers that any actual or perceived preferential treatment given to the connected client holding securities on a non-discretionary basis on behalf of independent third parties by virtue of its relationship with the connected Distributor can be addressed, and will ordinarily give its Consent for allocation of securities to such connected client subject to the conditions below which may be modified if the Exchange considers necessary:

- (a) the **overall coordinator** shall confirm<sup>3</sup> to the Exchange in writing that the securities allocated to the connected client are held on behalf of independent third parties, and that based on (i) the discussions between the listing applicant, the connected Distributor and the overall coordinator(s); and (ii) the confirmations provided to the Exchange by the listing applicant, the connected Distributor, the overall coordinators and the connected client (confirmations (c) and (g) mentioned below), and to the best of its knowledge and belief, it has no reason to believe that the connected client received any preferential treatment in the IPO allocation either as a cornerstone investor or as a placee by virtue of its relationship with the connected Distributor other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13, and details of the allocation<sup>4</sup> will be disclosed in the listing document and/ or the allotment results announcement, as the case may be; ***(Last updated in August 2022)***
- (b) the **listing applicant** shall confirm<sup>3</sup> to the Exchange in writing that the connected client's cornerstone investment agreement does not contain any material terms which are more favourable to the connected client than those in other cornerstone investment agreements;
- (c) the **listing applicant, connected Distributor** and, to the best of the overall coordinators' knowledge and belief, the **overall coordinators** shall confirm<sup>3</sup> to the Exchange in writing that: ***(Updated in August 2022)***

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<sup>3</sup> All syndicate members are required to identify to the listing applicant, each overall coordinator who their connected clients are (if any) with orders placed by that syndicate member in the book prior to the placement to facilitate the process of seeking Consent. Confirmations by the listing applicant, connected Distributor, overall coordinators and connected client must be copied to each sponsor. This confirmation does not preclude the Distributor from having access/ to have access to information about the orders placed by the connected client, proposed allocations to the connected client, and the final allocations to the connected client in the ordinary course of order-book exchanges and circulation of draft allocation proposals among the syndicate and to the listing applicant. Confirmations by the listing applicant, connected Distributor and connected client must be copied to each overall coordinator. ***(Updated in August 2022)***

<sup>4</sup> Details of the allocation include (a) the name of, the number of securities allocated to, and the percentage of offer shares and/ or total issued share capital taken up by the connected client/ existing shareholder or its close associates; (b) the basis for cornerstone investor/ placee being regarded as a connected client under the Main Board Placing Guidelines (GEM Rule 10.12(1A)) and the name of the connected Distributor; and (c) lock-up arrangement, where applicable. ***(Updated in February 2018)***

- (i) in the case of participation as a cornerstone investor, no preferential treatment has been, nor will be, given to the connected client other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13; or
  - (ii) in the case of participation as a placee, no preferential treatment has been, nor will be, given to the connected client in any allocation in the placing tranche;
- (d) the **overall coordinator** shall provide the identities of the connected clients and the relationships between the Distributor and each of the connected clients (e.g. whether they are members of the same group of companies and/or are collective investment schemes managed by members of the same group of companies<sup>5</sup>); **(Updated in August 2022)**
- (e) the **overall coordinator** shall provide the identities of the ultimate beneficial owners of the securities or where applicable, details of the structured products under which the subscription by the connected client was made (e.g. OTC total return swaps); **(Updated in August 2022)**
- (f) where the connected client is a collective investment scheme which is not authorised by the Securities and Futures Commission or is expected to hold the securities on behalf of such a scheme, the **overall coordinator** shall provide in the consent application the background and details of the scheme such as (i) the types and values of assets under management; (ii) whether the scheme is publicly marketed; (iii) the scheme establishment date; (iv) identities of the general partners and the 20 largest limited partners<sup>6</sup> of the scheme where applicable; (v) the identity of the scheme administrator; and (vi) the relationships amongst the scheme, the ultimate beneficial owner(s) of the limited partner(s), the controlling shareholder(s) of the listing applicant, and the listing applicant; and **(Updated in August 2022)**
- (g) the **connected client** shall confirm<sup>3</sup> to the Exchange in writing that, to the best of its knowledge and belief, it has not received and will not receive preferential treatment in the IPO allocation either as a cornerstone investor or as a placee by virtue of its relationship with the connected Distributor, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13 (together, the “**Non-discretionary Basis Conditions**”).

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<sup>5</sup> The Exchange normally regards “members of the same group” as including, without limitation, subsidiaries, associates of 20% or more shareholding of the Distributor’s holding companies, and other companies over which the Distributor and/or its subsidiaries, holding companies or fellow subsidiaries could individually or together directly or indirectly exert influence, e.g. by board representation. **(Added in March 2021)**

<sup>6</sup> For a collective investment scheme with more than 20 limited partners, none of which holds 30% or more interest in the scheme, the identities of the limited partners of the scheme are normally not required to be provided in the consent application. Instead, the connected client is required to confirm that the scheme is widely held with no single limited partner holding 30% or more interest, and confirm that the limited partners are independent of the listing applicant, its controlling shareholders and the connected Distributor. **(Added in March 2021)**

B. Connected Clients holding securities on a **Discretionary** Basis on behalf of Independent Third Parties who are Cornerstone Investors or Placees

4.10 Connected clients holding securities on a discretionary basis on behalf of independent third parties are authorised to make the investment decisions for the independent third parties. Discretionary asset managers usually charge performance-based management fees which may incentivise them to use their relationship with the connected Distributor to receive allocations. This heightened risk of preferential treatment warrants a higher level of scrutiny on whether the connected clients will receive any actual or perceived preferential treatment. The Exchange considers that this can be addressed by removing the connected Distributor from the decision-making process or relevant discussions (see paragraph 4.11(c)(i)).

4.11 Although each application will be considered on a case-by-case basis having regard to all relevant facts and circumstances, the Exchange considers that any actual or perceived preferential treatment given to the connected client holding securities on a discretionary basis on behalf of independent third parties by virtue of its relationship with the connected Distributor can be addressed, and will ordinarily give its Consent for allocation of securities to such connected client subject to the conditions below which may be modified if the Exchange considers necessary:

- (a) the **overall coordinator** shall confirm<sup>3</sup> to the Exchange in writing that the securities placed to the connected client are held on behalf of independent third parties, and that based on (i) the discussions between the listing applicant, the connected Distributor and the overall coordinator(s); and (ii) the confirmations provided to the Exchange by the listing applicant, connected Distributor, the overall coordinators and the connected client (confirmations (c) and (f) mentioned below), and to the best of its knowledge and belief, it has no reason to believe that the connected client received any preferential treatment in the IPO allocation either as a cornerstone investor or as a placee by virtue of its relationship with the connected Distributor other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13, and details of the allocation<sup>4</sup> will be disclosed in the listing document and/ or the allotment results announcement, as the case may be; ***(Last updated in August 2022)***
- (b) the **listing applicant** shall confirm<sup>3</sup> to the Exchange in writing that the connected client's cornerstone investment agreement does not contain any material terms which are more favourable to the connected client than those in other cornerstone investment agreements;
- (c) the **listing applicant, connected Distributor** and, to the best of the overall coordinators' knowledge and belief, the **overall coordinators** shall confirm<sup>3</sup> to the Exchange in writing that:
  - (i) the connected Distributor has not participated, and will not participate, in the decision-making process or relevant discussions among the listing applicant, the overall coordinators and the underwriters as to whether shares will be allocated to the connected client (regardless of whether as a cornerstone

investor or as a placee<sup>7</sup>); **(Updated in August 2022)**

and

- (ii) in the case of participation as a cornerstone investor, no preferential treatment has been, nor will be, given to the connected client other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13; or **(Updated in March 2021)**
- (iii) in the case of participation as a placee, no preferential treatment has been, nor will be, given to the connected client in any allocation in the placing tranche; **(Updated in March 2021)**
- (d) the **overall coordinator** shall provide the identities of the connected clients and the relationships between the Distributor and each of the connected clients (e.g. whether they are members of the same group of companies and/or are collective investment schemes managed by members of the same group of companies<sup>5</sup>); **(Updated in August 2022)**
- (e) where the connected client is a collective investment scheme which is not authorised by the Securities and Futures Commission or is expected to hold the securities on behalf of such a scheme, the **overall coordinator** shall provide in the consent application the background and details of the scheme such as (i) the types and values of assets under management; (ii) whether the scheme is publicly marketed; (iii) the scheme establishment date; (iv) identities of the general partners and the 20 largest limited partners<sup>6</sup> of the scheme where applicable; (v) the identity of the scheme administrator; and (vi) the relationships amongst the scheme, the ultimate beneficial owner(s) of the limited partner(s), the controlling shareholder(s) of the listing applicant, and the listing applicant; and **(Updated in August 2022)**
- (f) the **connected client** shall confirm<sup>3</sup> to the Exchange in writing that, to the best of its knowledge and belief, it has not received and will not receive preferential treatment in the IPO allocation either as a cornerstone investor or as a placee by virtue of its relationship with the connected Distributor, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13 (together, the “**Discretionary Basis Conditions**”).

4.12 As compared with the Non-discretionary Basis Conditions, the Discretionary Basis Conditions require the listing applicant, connected Distributor and overall coordinators to confirm that the connected Distributor has not participated, and will not participate, in the decision-making process or relevant discussions among the listing applicant, the overall coordinators and the underwriters as to whether shares will be allocated to the connected client (regardless of whether as a cornerstone investor or as a placee) (see paragraph 4.11(c)(i)). **(Updated in August 2022)**

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<sup>7</sup> For the avoidance of doubt, connected Distributors may participate in all other discussions on unconflicted allocations.

4.13 This arrangement takes the connected Distributor out of the decision-making process or relevant discussions so far as it applied to the connected client in order to remove any perception of preferential treatment which the connected client may be able to leverage from its connected Distributor.

4.14 Where securities are allocated to independent third parties but the asset manager of such independent third parties is a member of the same group of companies as the Distributor, the Exchange considers that the Discretionary Basis Conditions should also be met to address the actual or perceived preferential treatment given to such independent third parties by virtue of the relationship between the asset manager and the connected Distributor. **(Updated in March 2021)**

4.15 For the avoidance of doubt:

(a) Consent is not required where a connected client acts as a Distributor and all securities allocated to such connected client are fully distributed to independent placees such that it does not hold any securities upon completion of the IPO and all relevant provisions of the Main Board Placing Guidelines (GEM Rule 10.12 (1A)) are followed (including submission to the Exchange of a list of all placees and a confirmation of independence of the placees); and **(Updated in February 2018)**

(b) the Non-discretionary Basis Conditions and the Discretionary Basis Conditions may not apply if the securities are under-subscribed at the low end of the IPO price. The sponsor will demonstrate to the Exchange that the price of the securities was determined by a genuine price discovery process when securities are taken up by any connected clients. **(Updated in March 2021)**

C. Connected Clients holding securities for their Proprietary Accounts

4.16 No Consent will be given for allocation of securities to a connected client for its proprietary account unless under exceptional circumstances which will be considered on a case-by-case basis.

### ***Existing Shareholders or their Close Associates***

#### **Existing Shareholders or their Close Associates Participating as Cornerstone Investors or Placees**

4.17 An existing shareholder's ability to influence a listing applicant depends on the existing shareholder's interest, including whether it is also a core connected person under Main Board Rule 1.01 (GEM Rule 1.01), and whether it has any ability to appoint directors of the listing applicant<sup>8</sup>. The greater the existing shareholder's interest, the greater the risk of the existing shareholder having and using its influence over the listing applicant to obtain actual or perceived preferential treatment in the allocation process. Similarly, an existing shareholder who has a right to appoint directors will have a higher risk of actual or perceived preferential treatment. **(Updated in February 2018)**

4.18 Existing shareholders or their close associates cannot participate both as a cornerstone investor and as a placee. Similar to the rationale in paragraph 4.6 for connected clients,

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<sup>8</sup> Whilst not permissible after listing, it is possible for existing shareholders to have director appointment rights which are exercisable before listing.

the Exchange considers that preferential treatment given to existing shareholders or their close associates will not violate the fair and equal treatment requirement under Main Board Rules 2.03(2) and (4) (GEM Rules 2.06(2) and (4)) if the cornerstone investments follow the principles set out in HKEX-GL51-13 and the relevant conditions set out in paragraph 4.20 are met. **(Updated in February 2018)**

Conditions to address Actual or Perceived Preferential Treatment

- 4.19 The Exchange will consider giving Consent and granting waiver from Main Board Rule 10.04 (GEM Rule 13.02(1)) to a listing applicant's existing shareholders or their close associates to participate in an IPO if any actual or perceived preferential treatment arising from their ability to influence the listing applicant during the allocation process can be addressed. Application for a waiver from strict compliance with Main Board Rules 10.03 and 10.04 (GEM Rules 13.02(1)) shall be made through sponsors and copied to overall coordinators. **(Last updated in August 2022)**
- 4.20 Although each application will be considered on a case-by-case basis having regard to all relevant facts and circumstances, the Exchange considers that any actual or perceived preferential treatment given to a listing applicant's existing shareholders or their close associates by virtue of their relationship with the listing applicant can be addressed, and will ordinarily give its Consent for allocation of securities to such existing shareholders or their close associates subject to the conditions below which may be modified if the Exchange considers necessary **(Updated in March 2021)**:
- (a) the **sponsor** shall confirm that the existing shareholder is interested in less than 5% of a listing applicant's voting rights before listing on the Exchange;
  - (b) the **sponsor** shall confirm that the existing shareholder is not a core connected person or its close associate;
  - (c) the **sponsor** shall confirm that the existing shareholder does not have the power to appoint directors or any other special rights;
  - (d) the **sponsor** shall confirm that allocation to the existing shareholder or its close associates will not affect the listing applicant's ability to satisfy the public float requirement;
  - (e) the **sponsor** shall confirm to the Exchange in writing that based on (i) its discussions with the listing applicant and the overall coordinators; and (ii) the confirmations provided to the Exchange by the listing applicant and the overall coordinators (confirmation (f) and/ or (g) mentioned below), and to the best of its knowledge and belief, it has no reason to believe that the existing shareholder or its close associates received any preferential treatment in the IPO allocation either as a cornerstone investor or as a placee by virtue of their relationship with the listing applicant other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13, and details of the allocation<sup>4</sup> will be disclosed in the listing document and/ or the allotment results announcement, as the case may be; **(Updated in August 2022)**
  - (f) the **listing applicant** shall confirm<sup>3</sup> to the Exchange in writing that:

- (i) in the case of participation as a cornerstone investor, no preferential treatment has been, nor will be, given to the existing shareholder or its close associates by virtue of their relationship with the listing applicant other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13, that the existing shareholder or its close associates' cornerstone investment agreement does not contain any material terms which are more favourable to the existing shareholder or its close associates than those in other cornerstone investment agreements; or
- (ii) in the case of participation as a placee, no preferential treatment has been, nor will be, given to the existing shareholder or its close associates by virtue of their relationship with the listing applicant in any allocation in the placing tranche; and
- (g) in the case of participation as a placee, the **overall coordinators** shall confirm<sup>3</sup>, to the best of their knowledge and belief, to the Exchange in writing that no preferential treatment has been, nor will be, given to the existing shareholder or its close associates by virtue of their relationship with the listing applicant in any allocation in the placing tranche (together, the "**Existing Shareholders Conditions**"). *(Updated in August 2022)*

4.21 The rationale is that these shareholders will be subject to the same book building and share allocation process under the placing tranche as other placees. No preference will be given to these investors in the allocation process because they are existing shareholders.

4.22 If a request to waive Main Board Rule 10.04 (GEM Rule 13.02(1)) involves pre-IPO investors or cornerstone investors subscribing for further securities under the placing tranche, the Exchange will presume preferential treatment has been given to these investors due to their special status in a listing applicant. Unless a clear case can be demonstrated to the Exchange to dispel this presumption, no waiver will be granted. *(Updated in February 2018)*

4.23 Applicants may issue convertible instruments before listing on the Exchange and these instruments may be convertible into the listing applicant's securities upon listing. It is the Exchange's practice to regard the holders of such instruments as "existing shareholders" because conversion is subject to the discretion of the holders of such instruments and to err on the side of caution, we will assume that they will convert the instruments and become shareholders upon listing. As such, the holders of such instruments should satisfy the Existing Shareholders Conditions if they would like to participate as placees or cornerstone investors in an IPO. For the purpose of the condition set out in paragraph 4.20(a), their shareholding will be calculated as if the instruments were converted in full before the first filing of the listing application to the Exchange. *(Updated in March 2021)*

4.24 If securities are placed to existing shareholders or their close associates through connected clients, both (a) Discretionary Basis Conditions/ Non-discretionary Basis Conditions; and (b) the Existing Shareholders Conditions have to be satisfied.

- 4.25 The Existing Shareholders Conditions are not required if the securities are under-subscribed at the low end of the IPO price. The sponsor will demonstrate to the Exchange that the price of the securities was determined by a genuine price discovery process when securities are taken up by any existing shareholders. In addition, the Existing Shareholders Conditions and Discretionary Basis Conditions/ Non-discretionary Basis Conditions do not apply if existing shareholders purchase securities pursuant to an anti-dilution provision (see Listing Decision HKEX-LD44-2). **(Updated in March 2021)**
- 4.26 Notwithstanding the condition set out in paragraph 4.20(a) that an existing shareholder is interested in less than 5% of a listing applicant's voting rights, the Exchange may consider granting Consent for the existing shareholder interested in 5% or more of a listing applicant's voting rights if it can, on a case-by-case basis, be demonstrated that the existing shareholder is a genuine, independent and public investor<sup>9</sup>.
- 4.27 For the avoidance of doubt, the Existing Shareholders Conditions do not apply to Biotech Companies. Given the likely significant funding needs of Biotech Companies and the importance of existing shareholders in meeting the funding needs of these companies, existing shareholders are allowed to participate in the IPO of a Biotech Company provided that the listing applicant complies with Main Board Rules 8.08(1) and 18A.07 in relation to shares held by the public (see Guidance Letter HKEX-GL92-18). **(Updated in April 2020)**

#### Existing Shareholders who are PRC Governmental Bodies

- 4.28 The Existing Shareholders Conditions are not applicable to close associates of existing shareholders who are PRC governmental bodies under Main Board Rule 19A.04 (GEM Rule 25.04) if the existing shareholders have no direct influence over the allocation process, and the close associates (a) are genuine investors who operate independently of the PRC governmental bodies; and (b) have no access to material non-public information regarding an IPO and no influence over the allocation process of the IPO<sup>10</sup>. The Exchange will look into the relationship between the close associates and the listing applicant, and will assess whether to recommend Consent to them on a case-by-case basis. **(Updated in February 2018)**

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<sup>9</sup> Public investor refers to an independent investor who is not connected with a listing applicant within the meaning of the Rules when the listing applicant has a listing elsewhere.

<sup>10</sup> For the avoidance of doubt, even if Consent is granted, where the close associates of the existing shareholder who is a PRC governmental body are core connected persons of the listing applicant, they will not be counted towards the public float under Main Board Rule 8.24 (GEM Rule 11.23). **(Added in March 2021)**

4.29 A summary of the parties and confirmations to be provided to the Exchange is set out below: **(Last updated in August 2022)**

Particulars of the confirmations	Parties to provide the relevant confirmations with		
	Non-discretionary Basis Conditions (Paragraph 4.9)	Discretionary Basis Conditions (Paragraph 4.11)	Existing Shareholders Conditions (Paragraph 4.20)
	1. Securities are held on behalf of independent third parties		
- overall coordinators	✓	✓	
2. Cornerstone investment agreement does not contain any material terms which are more favourable to the connected client/ existing shareholder or its close associates			
- listing applicant	✓	✓	✓
3. No preferential treatment			
- listing applicant	✓	✓	✓
- connected Distributor	✓	✓	
- overall coordinators	✓	✓	✓
- connected client	✓	✓	
- sponsor			✓
4. Connected Distributor not participating in decision-making process/ discussion relating to connected client			
- listing applicant		✓	
- connected Distributor		✓	
- overall coordinators		✓	
5. Identities of the ultimate beneficial owners of the securities or where applicable, details of the structured products under which the subscription by the connected client was made			
- overall coordinators	✓		
6. Where the connected client is a collective investment scheme which is not authorised by the Securities and Futures Commission or is holding the securities on behalf of the scheme, the background and details of the scheme.			
- overall coordinators	✓	✓	
7. Existing shareholder (a) is interested in less than 5% of a listing applicant's voting rights; (b) is not a core connected person or its close associate; (c) does not have the power to appoint directors or any other special rights; and (d) allocation to the existing shareholder or its close associates will not affect the listing applicant's ability to satisfy the public float requirement.			
- sponsor			✓

### Other matters

4.30 Allocation of securities is usually determined after the public offering is closed. The Exchange reminds the sponsors and overall coordinators that the relevant Rules must be complied with and requests for Consent to allocate securities to connected clients, and existing shareholders or their close associates, should be made in a timely manner, bearing in mind that Consent may be required from the Listing Committee, so as to avoid any unnecessary delay in a listing applicant's listing timetable. **(Updated in August 2022)**

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