

## **HKEx GUIDANCE LETTER**

**HKEx-GL75-14 (April 2014) (Updated in October 2014)**

<b>Subject</b>	<b>Consents for placing of shares to connected clients who will hold the shares on behalf of independent third parties</b>
<b>Listing Rules and Regulations</b>	<b>Paragraphs 5(1) and 13(7) of Appendix 6 to the Main Board Listing Rules</b> <b>Listing Decision HKEx-LD54-3 (superseded by this letter)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 case where a lead broker or any distributors as defined under Appendix 6 of the Main Board Listing Rules place shares of an applicant to their connected clients who in turn will hold such shares on behalf of independent third parties. It supersedes Listing Decision HKEx-LD54-3.

### **2. Relevant Rules**

- 2.1 Paragraph 5(1) of Appendix 6 of the Main Board Listing Rules states that, without the prior written consent of the Exchange, no allocations will be permitted to “*connected clients*” of the lead broker or of any distributors.
- 2.2 Paragraph 13(7) of Appendix 6 of the Main Board Listing Rules states that “*connected clients*” in relation to an exchange participant means any client of such member who is a company which is a member of the same group of companies as such exchange participant.

### **3. Guidance**

- 3.1 Allocations of shares in an IPO to connected clients of the lead broker or of any distributors require the Exchange’s prior written consent under Appendix 6 of the Main Board Listing Rules (the “**Placing Guidelines**”).

3.2 The lead broker or any distributors may, from time to time, allocate shares to their affiliated companies within the same group who will hold the shares on behalf of independent investors (who can be either cornerstone investors or ordinary placees in the placing tranche). For example, if shares are allocated to a connected client (including a discretionary fund or a qualified domestic institutional investor fund) of the lead broker or an underwriter who will hold the shares on behalf of independent investors.

3.3 Although the connected clients only hold the shares on behalf of independent third parties, such proposed placing will technically still be an allocation of shares to connected clients under the Placing Guidelines and therefore would require the Exchange's prior written consent under the Placing Guidelines.

3.3A For the avoidance of doubt, the Exchange's prior written consent will not be required where a connected client acts as a distributor and all shares allocated to this connected client are fully distributed to independent placees such that it will not hold any shares upon completion of the offer and all relevant provisions of the Placing Guidelines are followed (including submission to the Exchange a list of all placees and a confirmation of independence of the placees) (added in October 2014).

3.33.4 Although each application will be considered on a case-by-case basis having regard to all relevant facts and circumstances, the Exchange will ordinarily give its written consent under the Placing Guidelines for allocation of shares to connected clients of the lead broker or any distributors subject to the below conditions which may be modified if required:-

- (i) the shares are held on behalf of independent third parties;
- (ii) the sponsor(s) and the (joint) bookrunner(s) confirm that the shares will not be offered to the connected clients on a preferential basis or, for connected clients who will hold shares on behalf of a cornerstone investor, that material terms of the agreement with the relevant investor are substantially the same as other cornerstone investors participating in the offering; and
- (iii) details of the allocation to the connected clients, including the name of the connected clients and their relationship with the lead broker or the distributor(s), number and percentage of shares allocated to each connected client and lock-up arrangement (if any), will be disclosed in the allotment result announcement.

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

3.53.6 Allocation of shares is usually determined by the lead broker and distributors after the public offer is closed. The Exchange reminds the sponsors and lead brokers that the relevant Listing Rules must be complied with and applications for written consent under the Placing Guidelines to allocate shares to connected clients should be made to the Exchange on a timely manner to avoid any unnecessary delay in an applicant's listing timetable.

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