

HKEX GUIDANCE LETTER

HKEX-GL85-16 (January 2016) (Updated in February 2018 and April 2020)

Subject	Placing to connected clients, and existing shareholders or their close associates, under the Rules
Listing Rules and Regulations	Main Board Rules 2.03(2) and (4), 10.03, 10.04 and 19A.04 Paragraphs 5(1) and (2), and 13 <u>of</u> 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 Letter <u>s</u> HKEX-GL51-13 <u>and HKEX-GL92-18</u> Listing Decision HKEX-LD44-2 Guidance Letter HKEX-GL75-14 and Listing Decision HKEX-LD90-1 (superseded by this letter)
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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 Department-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) a lead broker or any distributors (as defined in the Main Board Placing Guidelines and with the same meaning under the GEM Rules) place securities of an 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) an applicant’s existing shareholders or their close associates participate either as cornerstone investors¹ or as placees in initial public offerings (“**IPOs**”). It supersedes Guidance Letter HKEX-GL75-14 and Listing Decision HKEX-LD90-1. (**Updated in February 2018**)

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.

¹ 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 an 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. 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) an applicant's existing shareholders or their close associates, the Existing Shareholders Conditions should be complied with (see paragraph 4.20). However, 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 ~~4.274.28~~. (Updated in February 2018 and April 2020)
- 2.4 You can refer to paragraph ~~4.284.29~~ 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 lead broker or of any 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 broker/ 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 an applicant's listing timetable.

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 lead broker or of any distributors, and 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 an 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 an 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 lead broker or any 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 to connected clients if it is satisfied that: (a) the allocation to connected clients represents genuine demand for securities in an 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.
- 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 brokers/ 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 broker/ 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 securities are held on behalf of independent third parties;
- (b) the **applicant** shall confirm² 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 **applicant, connected broker/ distributor** and, to the best of the bookrunners' knowledge and belief, the **bookrunners** shall confirm² 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 connected client by virtue of its relationship with the connected broker/ 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 allocation³ will be disclosed in the listing document and the allotment results announcement; or
 - (ii) in the case of participation as a placee, no preferential treatment has been, nor will be, given to the connected client by virtue of its relationship with the connected broker/ distributor in any allocation in the placing tranche, and details of the allocation³ will be disclosed in the allotment results announcement;
- (d) the **connected client** shall confirm² 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 broker/distributor, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13; and

² All syndicate members are required to identify to the applicant, each sponsor and bookrunner who their connected clients are (if any) with orders placed by that syndicate member in the book prior to the placement to cornerstone investors or allocation to placees to facilitate the process of seeking Consent. Confirmations by the applicant, connected broker/ distributor, bookrunners and connected client (as the case may be) must be copied to the sponsor. This confirmation does not preclude the broker/ 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 applicant. Confirmations by the applicant, connected broker/ distributor and connected client (as the case may be) must be copied to the bookrunners.

³ 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) if a cornerstone investor/ placee is a connected client, the basis for it being regarded as a connected client under the Main Board Placing Guidelines (GEM Rule 10.12(1A)) and the name of the connected broker/ distributor; and (c) lock-up arrangement, where applicable. **(Updated in February 2018)**

- (e) the **sponsor** shall confirm to the Exchange in writing that based on (i) its discussions with the applicant, the connected broker/ distributor and the bookrunners; and (ii) the confirmations provided to the Exchange by the applicant, connected broker/ distributor, the bookrunners and the connected client (confirmations (c) and (d) mentioned above), 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 broker/ 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 allocation³ will be disclosed in the listing document and/ or the allotment results announcement, as the case may be (together, the “**Non-discretionary Basis Conditions**”).

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 authorized to make the investment decisions for the independent third parties. Discretionary asset managers usually charge performance-based management fees which may incentivize them to use their relationship with the connected broker/ 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 broker/ 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 broker/ 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 securities are held on behalf of independent third parties;
- (b) the **applicant** shall confirm² 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 **applicant, connected broker/ distributor** and, to the best of the bookrunners’ knowledge and belief, the **bookrunners** shall confirm² to the Exchange in writing that:
 - (i) the connected broker/ distributor has not participated, and will not participate, in the decision-making process or relevant discussions among the applicant,

the bookrunners and the underwriters as to whether the connected client will be selected as a cornerstone investor or a placee⁴;

and

- (ii) in the case of participation as a cornerstone investor, no preferential treatment has been, nor will be, given to the connected client by virtue of its relationship with the connected broker/ 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 allocation³ will be disclosed in the listing document and the allotment results announcement; or
 - (iii) in the case of participation as a placee, no preferential treatment has been, nor will be, given to the connected client by virtue of its relationship with the connected broker/ distributor in any allocation in the placing tranche, and details of the allocation³ will be disclosed in the allotment results announcement;
- (d) the **connected client** shall confirm² 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 broker/ distributor, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEX-GL51-13; and
- (e) the **sponsor** shall confirm to the Exchange in writing that based on (i) its discussions with the applicant, the connected broker/ distributor and the bookrunners; and (ii) the confirmations provided to the Exchange by the applicant, connected broker/ distributor, the bookrunners and the connected client (confirmations (c) and (d) mentioned above), 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 broker/ 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 allocation³ will be disclosed in the listing document and/ or the allotment results announcement, as the case may be (together, the “**Discretionary Basis Conditions**”).

4.12 As compared with the Non-discretionary Basis Conditions, the Discretionary Basis Conditions require the applicant, connected broker/ distributor and bookrunners to confirm that the connected broker/ distributor has not participated, and will not participate, in the decision-making process or relevant discussions among the applicant, the bookrunners and the underwriters as to whether the connected client will be selected as a cornerstone investor or a placee (see paragraph 4.11(c)(i)).

⁴ For the avoidance of doubt, connected brokers/ distributors may participate in all other discussions on unconflicted allocations.

- 4.13 This arrangement takes the connected broker/ 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 broker/ 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 lead broker or of any distributor (as defined in the Placing Guidelines), 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 broker/ distributor.
- 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 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 are not required if the securities are under-subscribed at the low end of the IPO price.

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 an applicant depends on the existing shareholder's interest, 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 applicant⁵. The greater the existing shareholder's interest, the greater the risk of the existing shareholder having and using its influence over the 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 an even 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, the Exchange considers that preferential treatment given to existing shareholders or

⁵ Whilst not permissible after listing, it is possible for existing shareholders to have director appointment rights which are exercisable before listing.

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 relevant conditions set out in paragraph 4.20. **(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 an 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 applicant during the allocation process can be addressed. **(Updated in February 2018)**
- 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 an applicant's existing shareholders or their close associates by virtue of their relationship with the 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:
- (a) the existing shareholder is interested in less than 5% of an applicant's voting rights before listing on the Exchange;
 - (b) the existing shareholder is not a core connected person or its close associate;
 - (c) the existing shareholder does not have the power to appoint directors or any other special rights;
 - (d) allocation to the existing shareholder or its close associates will not affect the 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 applicant and the bookrunners; and (ii) the confirmations provided to the Exchange by the applicant and the bookrunners (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 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 allocation³ will be disclosed in the listing document and/ or the allotment results announcement, as the case may be;
 - (f) the **applicant** shall confirm² 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 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, and details of the allocation³ will be disclosed in the listing document and the allotment results announcement; 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 applicant in any allocation in the placing tranche, and details of the allocation³ will be disclosed in the allotment results announcement; and

(g) in the case of participation as a placee, the **bookrunners** shall confirm², 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 applicant in any allocation in the placing tranche, and details of the allocation³ will be disclosed in the allotment results announcement (together, the "**Existing Shareholders Conditions**").

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 an 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 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 IPO.

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. 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).

4.26 Notwithstanding the condition set out in paragraph 4.20(a) that an existing shareholder is interested in less than 5% of an applicant's voting rights, the Exchange may consider granting Consent for the existing shareholder interested in 5% or more of an 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 investor⁶.

4.27 For the avoidance of doubt, the Existing Shareholder 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 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

4.264.28 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. The Exchange will look into the relationship between the close associates and the applicant, and will assess whether to recommend Consent to them on a case-by-case basis. **(Updated in February 2018)**

⁶ Public investor refers to an independent investor who is not connected with an applicant within the meaning of the Rules and the applicant has a listing elsewhere.

[4.274.29](#) A summary of the parties and confirmations to be provided to the Exchange is set out below:

Particulars of the confirmations	Parties to provide the relevant confirmations with		
	Non-discretionary Basis Conditions	Discretionary Basis Conditions	Existing Shareholders Conditions
	(Paragraph 4.9)	(Paragraph 4.11)	(Paragraph 4.20)
1. Securities are held on behalf of independent third parties	✓—	✓—	
2. Cornerstone investment agreement does not contain any material terms which are more favourable to the connected client/ existing shareholder or its close associates			
- applicant	✓—	✓—	✓—
3. No preferential treatment			
- applicant	✓—	✓—	✓—
- connected broker/ distributor	✓—	✓—	
- bookrunners	✓—	✓—	✓—
- connected client	✓—	✓—	
- sponsor	✓—	✓—	✓—
4. Connected broker/ distributor not participating in decision-making process/ discussion relating to connected client			
- applicant		✓—	
- connected broker/ distributor		✓—	
- bookrunners		✓—	
5. Existing shareholder			
- is interested in less than 5% of an applicant's voting rights			✓—
- is not a core connected person or its close associate			✓—
- does not have the power to appoint directors or any other special rights			✓—
6. Allocation to the existing shareholder or its close associates will not affect the applicant's ability to satisfy the public float requirement			✓—

Other matters

[4.284.30](#) Allocation of securities is usually determined after the public offering is closed. The Exchange reminds the sponsors and lead brokers 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 an applicant's listing timetable.
