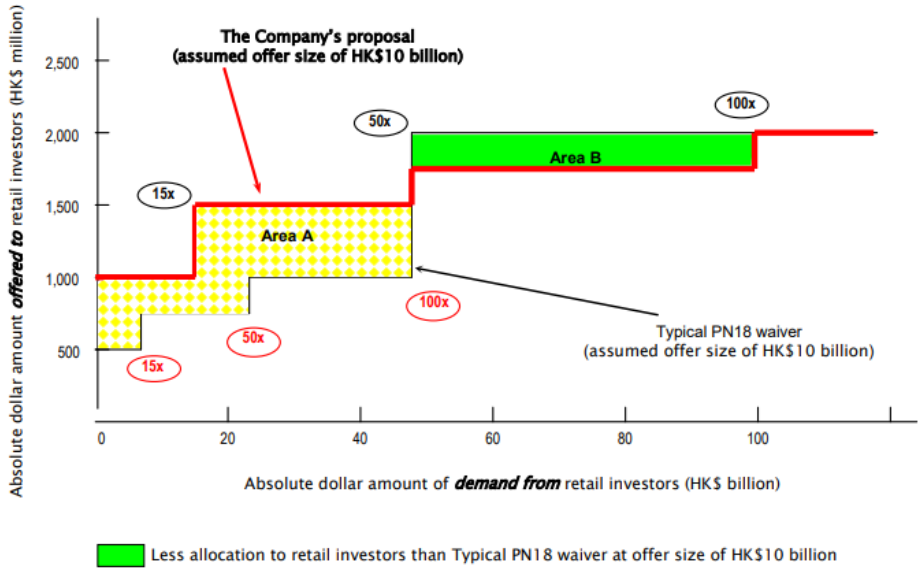


Applicant	Background and Decision
Company A (2001)	<p><i>Background</i></p> <ol style="list-style-type: none"> Company A proposed to grant its underwriter an over-allotment option whereby Company A could be required to issue a certain number of additional shares representing more than 15% of the total number of shares initially available under the offering. <p><i>Decision</i></p> <ol style="list-style-type: none"> The over-allotment option proposed by Company A was not acceptable to the Exchange. In an initial public offering, the Exchange would normally expect the number of additional shares which could be issued under an over-allotment option not to exceed 15% of the total number of shares initially available under the offering. The purpose of setting a modest upper limit (i.e. 15%) was to keep the uncertainty created by its potential dilution effect to within acceptable levels in the interests of maintaining an orderly market for new issuers.
Company B (2003)	<p><i>Background</i></p> <ol style="list-style-type: none"> Company B's proposed IPO offering would have a total value of less than HK\$100 million. Company B proposed to include in its IPO an over-allotment option (or, more correctly, an offer size adjustment option) which was not to be used for price stabilisation purposes and would only be exercisable before the commencement of trading in its shares. Under the option, Company B might increase (but not decrease) the number of shares to be offered under its IPO by up to 10%. Company B's sponsor submitted that, since the proposed offer size adjustment option would not be for price stabilisation purposes, it would not contravene the provisions of the Securities and Futures (Price Stabilizing) Rules. The Securities and Futures (Price Stabilizing) Rules, which was a subsidiary legislation under the SFO, provided that, among other things, no price stabilisation action could be undertaken in respect of offers with a total value of less than HK\$100 million. Accordingly, price stabilisation action would not be allowed in the case of Company B's offering. The Exchange was asked whether it had any objection in principle to the inclusion of the proposed option mechanism and, if not, whether any additional requirements would be imposed in connection with the use of such a mechanism. <p><i>Decision</i></p> <ol style="list-style-type: none"> In the consultation conclusion on offering mechanisms published in February 1998, it was decided that changes in the size of an IPO during the subscription process should be permitted. In the interests of an orderly and informed market, the Exchange believed that it was necessary to establish certain requirements, most of which would be analogous to those applicable in circumstances where the use of

Applicant	Background and Decision
	<p>an over-allotment option for price stabilisation purposes was permitted under the law, and to impose a 15% cap on the relative size of the option and that the offer size adjustment option should not be described as an “over-allotment option” in order to distinguish it from an option which could be used for price stabilisation purposes.</p> <p>6. Company B's offer size adjustment option was permitted subject to the following conditions:</p> <ul style="list-style-type: none"> (i) The number of additional shares which could be issued under the offer size adjustment option must not exceed 15% of the total number of shares initially available under the offering; (ii) The applicant would need to meet the minimum listing requirements even if the offer size adjustment option was not exercised; (iii) The option must be exercised prior to listing or lapse; (iv) The following disclosure must be included in the listing document: <ul style="list-style-type: none"> (a) Full details of the offer size adjustment option including the exercise period, dilution effect, use of additional proceeds and a statement that Company B would disclose in its allotment results announcement whether the option has been exercised; (b) A statement that the offer size adjustment option would not be used for price stabilisation purposes and is not subject to the Securities and Futures (Price Stabilizing) Rules; and (c) Company B would need to disclose in its allotment results announcement whether the option had been exercised and, where the option had not been exercised, confirm in the announcement that the option had lapsed and could not be exercised at any future date.
<p>Company C (MB applicant) (2008)</p> <p>Rule reference: Paragraph 4.1, 4.2 of MB Practice Note 18</p>	<p><i>Background</i></p> <p>1. Company C applied for a modification of the application of MB Practice Note 18 (i.e. a PN18 Waiver) on the basis of the following proposed offering structure:</p> <ul style="list-style-type: none"> (i) At the time Company C applied for a PN18 Waiver, the proposed total offering size was expected to be less than HK\$10 billion; and (ii) The clawback structure for allocation of shares to the public subscription tranche would be revised to: (a) 15% initially; (b) 17.5% if the public subscription tranche was oversubscribed between 10 and less than 20 times; (c) 20% if the public subscription tranche was oversubscribed between 20 and less than 40 times, and (d) a percentage range from not lower than 20% to not higher than 40% (depending on the size of the actual offer) if the public subscription tranche was oversubscribed by 40 or more times (see case A in paragraph 6 of Chapter 4.14 for illustration).

Applicant	Background and Decision
	<p data-bbox="360 246 1455 347">2. Company C submitted that it would ensure that the proposed offering structure would at all times allocate at least the same number of shares to retail investors than would have been under a Typical PN18 Waiver.</p> <p data-bbox="360 392 472 421"><i>Decision</i></p> <p data-bbox="360 465 743 495">3. The Exchange noted that:</p> <ul style="list-style-type: none"> <li data-bbox="419 533 1455 600">(i) The HK\$10 billion benchmark for a Typical PN18 Waiver was intended only to be a reference point for consideration and not an absolute condition; <li data-bbox="419 638 1455 705">(ii) A flexible policy in warranted cases would allow tailoring the offering more effectively to accommodate demands from different pools of investors; <li data-bbox="419 743 1455 878">(iii) In light of the fast-moving market conditions, it would be impractical for the Exchange for the time being to fix all the parameters, including the minimum and maximum percentages of shares to be allocated to the public subscription tranche; and <li data-bbox="419 916 1455 1050">(iv) In order to provide maximum flexibility to applicants to determine its own offering mechanism, the Exchange considered that it was not appropriate to set a fixed value for the purposes of determining the trigger points for oversubscription clawback. <p data-bbox="360 1088 1241 1117">4. The Exchange granted the PN18 Waiver as it was concluded that:</p> <ul style="list-style-type: none"> <li data-bbox="419 1155 1455 1223">(i) The proposed initial allocation of 15% would offer more shares to the retail public at the initial stage than a Typical PN18 Waiver structure; <li data-bbox="419 1261 1455 1328">(ii) The proposed offering structure had earlier oversubscription clawback trigger multiples than a Typical PN18 Waiver structure; <li data-bbox="419 1366 1455 1467">(iii) In all scenarios of the proposed offering structure, the number of shares allocated to retail investors would be larger than or equal to the number of shares allocated under a Typical PN18 Waiver; and <li data-bbox="419 1505 1209 1534">(iv) The trigger points were easy to understand and implement.

Applicant	Background and Decision
<p>Company D (MB applicant) (2008)</p> <p>Rule reference: Paragraph 4.1, 4.2 of MB Practice Note 18</p>	<p>Background</p> <ol style="list-style-type: none"> Company D applied for a modification of the application of MB Practice Note 18 (i.e. a PN18 Waiver) on the basis of the following proposed offering structure: <ol style="list-style-type: none"> At the time Company D applied for a PN18 Waiver, the proposed total offering size was expected to be not less than HK\$10 billion, failing which Company D would fully comply with the clawback requirements of paragraph 4.2 of MB Practice Note 18; and The clawback structure for allocation of shares to the public subscription tranche would be revised to: (a) 10% initially; (b) 15% if the offer was oversubscribed between 15 and less than 50 times; (c) 17.5% if oversubscribed between 50 and less than 100 times, and (d) 20% if oversubscribed by 100 or more times. <p>Decision</p> <ol style="list-style-type: none"> The Exchange considered the following: <ol style="list-style-type: none"> Need to preserve discretion to deal with applications on a case by case basis when granting a Typical PN18 Waiver; Prevailing market conditions at the time Company D submitted its application; Allocation of shares between institutional and retail investors being essentially a commercial decision subject to the relevant Listing Rules; and Previous PN18 Waivers granted. As illustrated in the graph below, the Exchange noted that:  <p>Due to the difference in percentage of initial allocation (10% vs 5%), the oversubscription multiples between Company D's proposal and a Typical PN18 Waiver are not directly comparable. For example, oversubscription by 50 times in Company D's proposal represented 500% (50 x 10%) of total offering, while oversubscription by 50 times in a Typical PN18 Waiver represented only 250% of total offering (50 x 5%).</p>

Applicant	Background and Decision
	<ul style="list-style-type: none"> (i) The proposed initial allocation percentage to the public subscription tranche under Company D's proposal would be higher than that pursuant to a Typical PN18 Waiver; (ii) Where the demand in the public subscription tranche was less than 50 times of the initial allocation, Company D's proposal would have offered more shares to retail investors than it would have offered pursuant to a Typical PN18 Waiver ("Area A"); (iii) Where the demand in the public subscription tranche was between 50 times to less than 100 times of the initial allocation, Company D's proposed allocation formulae would have offered less shares to retail investors than it would have offered pursuant to a Typical PN18 Waiver ("Area B"); and (iv) Area A is bigger than Area B. <p>4. The Exchange agreed to grant a PN18 Waiver notwithstanding that the proposed offering structure would not at all times allocate at least the same number of shares to retail investors as under a Typical PN18 Waiver.</p>