

# The Stock Exchange of Hong Kong Limited

## Practice Note 18

to the Rules Governing the Listing of Securities  
(the “Exchange Listing Rules”)

Issued pursuant to rule 1.06 of the Exchange Listing Rules

### INITIAL PUBLIC OFFER OF SECURITIES

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#### 1. Definitions

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

#### 2. Introduction

2.1 This practice note sets out certain procedures to be adopted in the allocation of shares in initial public offerings. The Exchange Listing Rules permit a new issue of shares to be offered by way of placing. This practice note also sets out certain procedures to be adopted where an initial public offering involves a placing tranche and public subscription tranche of securities.

#### 3. Allocation of Shares

3.1 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.

#### **4. Offers Involving a Subscription Tranche**

- 4.1 Issuers are reminded that in accordance with paragraph 7.10 of the Exchange Listing Rules, the Exchange may not permit a new applicant to be listed by way of placing if there is likely to be significant public demand for the securities. A key factor the Exchange will consider in reaching such a determination is the size of the offering.
- 4.2 Where an IPO includes both a placing tranche and a public subscription tranche the minimum allocation of shares to the subscription tranche shall be as follows:
- an initial allocation of 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 is 100 times or more 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.

- 4.3 Where the issuer has granted the overall coordinators an over-allotment option this may be divided between the public subscription tranche and placing tranche at the discretion of the overall coordinators. Overall coordinators should restrict the extent of any over-allocation of shares to the limit provided under the over-allotment option.
- 4.4 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.

- 4.5 Investors are free to select whether to apply in the placing tranche or the subscription tranche. Where the placement tranche and 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. Investors which have not received shares in the subscription tranche may receive shares in the placing tranche.
- 4.6 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 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.

## **5. Disclosure**

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

## **6. Effective Date**

- 6.1 This practice note takes effect from 26th June, 1998

Hong Kong 26th June, 1998