

**HKEX GUIDANCE LETTER
HKEX-GL101-19 (March 2019)**

[Streamlined and incorporated into the Guide for New Listing Applicants in January 2024]

Subject	Guidance on Sanctions Risks
Listing Rules	Main Board Rules 2.13(2) and 8.04 GEM Rule 11.06
Related Publications	HKEX-GL96-18
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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 on a confidential basis for an interpretation of the Listing Rules or this letter.*

1. Purpose

- 1.1 Certain overseas jurisdictions may from time to time impose trade or economic sanctions on specific countries, governments, entities or persons by restricting their nationals from making assets or services available, directly or indirectly, to them, dealing with their assets or otherwise conducting commercial transactions with them. Some sanctions may even have (i) extra-jurisdictional effect, i.e. are imposed on persons who are not nationals of the relevant jurisdiction or entities which are not incorporated or located in the relevant jurisdiction, and do not otherwise have any nexus with that jurisdiction; and/or (ii) implications on activities or investments which may be regarded as financing, facilitating or contributing to the enhancement of the ability of a sanctioned country, government, entity or person to develop certain specific products or industries.
- 1.2 This letter provides guidance on actions required to be taken by a listing applicant if its activities expose the Relevant Persons (as defined below) to any risk as a result of sanctions under any law or regulation of any Relevant Jurisdiction (as defined below) and how such risk may affect its suitability for listing and should be dealt with.

2. Relevant Listing Rules

- 2.1 Main Board Listing Rule 2.13(2) requires that the listing applicant must not, among other things, omit material facts of an unfavourable nature or fail to accord them with appropriate significance in the listing document.
- 2.2 Main Board Listing Rule 8.04 (GEM Listing Rule 11.06) requires that both the listing applicant and its business must, in the opinion of the Exchange, be suitable for listing.

3. Guidance

Definitions

- 3.1 For the purposes of this Guidance Letter, the following terms are defined as follows:

“Primary Sanctioned Activity” means any activity in a Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target by a listing applicant incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law or regulation.

“Relevant Jurisdiction” means any jurisdiction that is relevant to the listing applicant and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assets of certain countries, governments, persons or entities targeted by such law or regulation.

“Relevant Persons” means a listing applicant, together with its investors and shareholders and persons who might, directly or indirectly, be involved in permitting the listing, trading, clearing and settlement of its shares, including the Exchange and related group companies.

“Sanctioned Activity” means Primary Sanctioned Activity and Secondary Sanctionable Activity.

“Sanctioned Country” means any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction.

“Sanctioned Target” means any person or entity (i) designated on any list of targeted persons or entities issued under the sanctions-related

law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a Sanctioned Country; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii).

“Sanctioned Trader” means any person or entity that does a material portion (10% or more) of its business with Sanctioned Targets and Sanctioned Country entities or persons.

“Secondary Sanctionable Activity” means certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.

Three scenarios

3.2 This Guidance Letter considers three different scenarios:

- (a) a listing applicant has engaged in Primary Sanctioned Activity;
- (b) a listing applicant has engaged in Secondary Sanctionable Activity; and
- (c) a listing applicant is a Sanctioned Target, is located, incorporated, organised or resident in a Sanctioned Country, or is a Sanctioned Trader.

It also sets out certain circumstances under which the Exchange may find an applicant not suitable for listing.

Primary Sanctioned Activity

3.3 The listing applicant must obtain a reasoned analysis from its legal adviser on whether each Primary Sanctioned Activity conducted by the listing applicant (i) violates any applicable law or regulation in the Relevant Jurisdiction(s); and/or (ii) results in any material sanctions risk¹ to the Relevant Persons. The listing applicant must also assess the impact of any cessation of Primary Sanctioned Activity on its financial position and business operations. The listing applicant must cease all

¹ When assessing materiality, both the likelihood of the imposition of potential sanctions and the severity of the potential sanctions are taken into account.

Primary Sanctioned Activities prior to listing if its legal adviser has confirmed that such activities violate applicable law or regulation.

Depending on the facts and circumstances, the listing applicant should adopt appropriate measures to deal with any material sanctions risk identified (see paragraphs 3.6 and 3.7 below).

Secondary Sanctionable Activity

- 3.4 The listing applicant must obtain a reasoned analysis from its legal adviser on whether each Secondary Sanctionable Activity conducted by the listing applicant would likely result in the imposition of any sanctions against the Relevant Persons (including designation as a Sanctioned Target and/or the penalties which might be imposed).

Depending on the facts and circumstances, the listing applicant should adopt appropriate measures to deal with any material sanctions risk identified (see paragraphs 3.6 and 3.7 below).

Applicant is a Sanctioned Target, is located, incorporated, organised or resident in a Sanctioned Country or is a Sanctions Trader

- 3.5 Depending on the facts and circumstances, the Exchange may determine that such a listing applicant is not suitable for listing due to reputational risk or impose other restrictions (e.g. the listing applicant might be required to ensure that its shares are not offered to nationals of the Relevant Jurisdictions).

Measures to be adopted

Listing applicant subject to material sanctions risk

- 3.6 The listing applicant which is subject to material sanctions risk should implement effective and adequate internal control measures before listing to control and monitor its and other Relevant Persons' exposure to sanctions risks. Depending on the specific nature of the sanctions risk involved and the materiality of the Sanctioned Activity to the listing applicant's business, these measures might include an undertaking from the listing applicant and/or its shareholders to the Exchange:
- (a) not to directly or indirectly apply the IPO proceeds and any other funds raised through the Exchange to (i) finance or facilitate any Sanctioned Activity; or (ii) pay any damages for terminating or transferring the relevant contracts that constitute Sanctioned Activity;

- (b) to terminate before listing all obligations under the relevant contracts that constitute the Sanctioned Activity and have measures in place to ensure compliance with the Undertakings; and/ or
- (c) to disclose in its annual, interim and quarterly reports (if any) (i) details of any new and/ or existing Sanctioned Activity; (ii) its efforts in monitoring its business exposure to sanctions risks; and (iii) the current status of, and the anticipated plans for, any new and/ or existing Sanctioned Activity.

Any breach of such undertaking may lead to a possible delisting of the listing applicant's securities from the Exchange.

3.7 Depending on the specific nature of the sanctions risk involved and the materiality of the Sanctioned Activity to the listing applicant's business, the listing applicant may be required to prominently disclose the following in the "Summary", "Risk Factors" and "Business" sections of its listing document:

- (a) details of the Sanctioned Activities, including but not limited to (i) the nature and size of the listing applicant's projects/ businesses involved in the Sanctioned Activities; (ii) whether the listing applicant and/ or its counterparties were or have reasons to believe they will be deemed to be Sanctioned Targets; and (iii) background of the counterparties, the revenue recognized from Sanctioned Activities during the track record period and the current status of such activities;
- (b) the legal adviser's reasoned analyses under paragraphs 3.3 and 3.4 above;
- (c) a description of any known material contingent liabilities in relation to the Sanctioned Activities in accordance with the applicable accounting and legal standards;
- (d) if it has engaged in Primary Sanctioned Activities that violate any applicable law or regulation, (i) when such activities ceased; (ii) details of the financial and operational impact; (iii) any disclosure made to the relevant governments and responses to, and the status of, any such disclosure; and (iv) the legal consequences (including maximum penalties (if any)) on the Relevant Persons as a result of such cessation;

- (e) if it intends to undertake any new Sanctioned Activity after listing, details of such intention and the parameters or criteria that the listing applicant will consider when determining whether to undertake such venture; and
- (f) (i) the internal control measures and the views of its sponsor(s) and directors on the adequacy and effectiveness of the internal control measures to protect the interests of the Relevant Persons; (ii) the Undertakings; and (iii) a risk factor on the possible delisting of the listing applicant's securities if any undertaking to the Exchange as described in paragraph 3.6 is breached.

Circumstances which may render an applicant not suitable for listing

- 3.8 The Exchange is unlikely to approve the listing if (a) any sanctions risks to or sanctions imposed on the applicant materially undermine its ability to continue its operations; (b) an applicant states that the funds are raised to finance Sanctioned Activities; or (c) its listing would cause a significant risk to the Relevant Persons or reputational risk to the Exchange (see also paragraph 3.5 above). Whether a listing would cause a significant risk to the Relevant Persons depends on the specific facts and circumstances.

No current Sanctioned Activity or no material sanctions risk

- 3.9 If there is no apparent or material sanctions risk, no specific risk mitigating measures need to be adopted and no disclosure on sanctions is required.

Suitability for continued listing

- 3.10 Please refer to paragraphs 25-28 of GL96-18 regarding the Exchange's guidance on listed issuer's suitability for continued listing due to trade or economic sanctions.

Latest developments

- 3.11 Since sanctions-related laws and regulations change from time to time, whether a listing applicant is subject to any sanctions risk depends on the facts and circumstances at any particular point in time. A listing applicant should therefore obtain legal advice as necessary to ensure it is kept abreast of all the latest developments.
