HKEX
香港交易所

Guide For New Listing Applicants



WYBOTICS EX1041
Wybotics v. Zodiac
Page 001

August 2025

Contents

Introduction
Definitions and Glossary

1 Eligibility/Suitability for Listing

1.1 Eligibility for Listing
- 1.1A Trading Record and Financial Eligibility
- 1.1B Management Continuity
- 1.1C Ownership Continuity and Control

1.2 Suitability for Listing
- 1.2A Business Sustainability
- 1.2B Material Reliance on Counterparties
- 1.2C Persons with Significant Influence and Suitability of Directors
- 1.2D Non-compliances
- 1.2E Competition with Controlling Shareholders

2 Special Listing Regimes

2.1 Overseas Issuers
2.2 Companies with Weighted Voting Rights Structures
2.3 Biotech Companies
2.4 Special Purpose Acquisition Companies
2.5 Specialist Technology Companies
2.6 Mineral Companies

3 Listing Document Disclosure

3.1 General Principles

Guidance on Specific Sections

3.2 Summary
3.3 Risk Factors
3.4 Industry Overview
3.5 Regulations
3.6 History and Development
3.7 Business
3.8 Relationship with Controlling Shareholders
3.9 Continuing Connected Transactions
3.10 Directors, Supervisors and Senior Management
3.11 Financial Information
3.12 Use of Proceeds
3.13 Offering
3.14 Miscellaneous

4 Specific Topics

Corporate, Shareholding and Capital Structure

4.1 Contractual Arrangements
4.2 Pre-IPO Investments

Governance and Business Exposure

4.3 Corporate Governance & Environmental, Social and Governance
4.4 Sanctions Risks

Business Model and Industry Specific Guidance

4.5 Distributorship
4.6 Forfeited Income from Prepayments
4.7 Gambling Activities
4.8 Pawn Loan Business
4.9 Restaurant Business
4.10 Valuation of Biological Assets
4.11 Land and Properties

Listing and Offering-related Matters

4.12 Liquidity Arrangements for Listing by Introduction
4.13 Restrictions on Share Issuance/Disposal by Applicants and Existing Shareholders
4.14 Offering-related Mechanisms
4.15 Placing-related Matters

5 Other Listing Structures

5.1 Hong Kong Depositary Receipts
5.2 Authorised Collective Investment Schemes
5.3 Investment Companies
5.4 Business Trusts and Stapled Securities

6 Other Matters

6.1 Sponsor's Independence, Expert Engagement and CMI Appointment
6.2 Return of Listing Applications
6.3 General Documentary Requirements
6.4 Posting of AP, PHIP, OC Announcement and Statements
6.5 Arrangements for C(WUMP)O Exemption Applications
6.6 Prospectus Authorisation and Registration

Annex A Listing Decisions

A.1 Trading Record and Financial Eligibility
A.2 Management Continuity
A.3 Ownership Continuity and Control
A.4 Minimum Market Capitalisation
A.5 Qualification for GEM Transfer
A.6 Business Sustainability
A.7 Material Reliance on Counterparties
A.8 Persons with Significant Influence and Suitability of Directors
A.9 Non-compliances
A.10 Companies with Weighted Voting Rights Structures
A.11 Biotech Companies
A.12 Mineral Companies
A.13 History and Development
A.14 Continuing Connected Transactions
A.15 Pre-IPO Investments
A.16 Liquidity Arrangements for Listing by Introduction
A.17 Restrictions on Share Issuance/Disposal by Applicants and Existing Shareholders
A.18 Offering-related Mechanisms
A.19 Placing-related Matters
A.20 Sponsor's Independence， Expert Engagement and CMI appointment
A.21 Return of Listing Applications
A.22 Miscellaneous

Annex B Frequently Asked Questions

B.1 Qualification for GEM Transfer
B.2 Overseas Issuers
B.3 Special Purpose Acquisition Companies
B.4 Mineral Companies
B.5 Directors, Supervisors and Senior Management
B.6 Offering
B.7 Land and Properties
B.8 Placing-related Matters
B.9 Hong Kong Depositary Receipts
B.10 Sponsor's Independence, Expert Engagement and CMI Appointment
B.11 General Documentary Requirements

INTRODUCTION

Over the years, the Exchange has published various guidance letters, listing decisions and frequently asked questions on New Listing to facilitate applicants and their advisers to understand the listing requirements and prepare for their listing applications. As the capital market evolves, the Exchange has issued, updated, and withdrawn guidance letters, listing decisions and frequently asked questions from time to time to enhance transparency and understanding of the Exchange's latest requirements and expectations.

This Guide for New Listing Applicants ("**Guide**") consolidated and enhanced all previously published and currently effective guidance letters, listing decisions and frequently asked questions relating to New Listing. The Exchange envisages that by consolidating all relevant guidance materials into a single guide, applicants and their advisers can conveniently navigate all New Listing related guidance to understand, among others, the Exchange's interpretation of certain Listing Rules and related requirements, as well as the Exchange's expectation as to the standards and quality of listing document disclosure, which are to enable investors to make a properly informed assessment of the applicant.

This Guide is divided into six main sections: (i) eligibility and suitability for listing; (ii) special listing regimes; (iii) disclosure in a listing document generally applicable to all New Listing applicants; (iv) specific topics relating to a New Listing application; (v) other listing structures; and (vi) other matters, with two annexes setting out streamlined listing decisions and frequently asked questions to enhance readability and presentation while retaining the Exchange's principles and guidance.

The Exchange expects applicants and their advisers to adhere to the Listing Rules and follow this Guide when preparing a listing application, failing which a listing application may be returned or rejected.

It is emphasised that the Listing Rules and this Guide are not exhaustive, and this Guide is not intended to be a checklist for satisfying the listing document content requirements under applicable laws and regulations and/or the Listing Rules. The Exchange may request further information, impose additional requirements and/or conditions whenever it considers appropriate. The Exchange may also waive or modify certain requirements under the Listing Rules on a case-by-case basis.

This Guide does not override the Listing Rules, nor serve as a substitute for advice from qualified professional advisers. Applicants and their advisers should read this Guide along with the Listing Rules, and relevant information set forth under "Listing Regulations" on the Exchange's website. If there is any conflict or inconsistency between this Guide and the Listing Rules, the Listing Rules shall prevail. If in doubt, applicants and their advisers are encouraged to consult with the Exchange.

All submissions and information provided to the Exchange must be accurate and complete in all material respects and not be misleading or deceptive. Applicants and their advisers should timely notify the Exchange of any material matters that may assist the Exchange's assessment of their listing applications.

This Guide is issued in English with a separate Chinese translation. If there is any conflict between the English and Chinese versions, the English version shall prevail.

August 2025

WYBOTICS EX1041
Wybotics v. Zodiac
Page 005

DEFINITIONS AND GLOSSARY

Terms defined under the Listing Rules shall have the same meanings in this Guide unless otherwise indicated. For the avoidance of doubt, the meanings of terms defined in a chapter or an annex of this Guide shall only apply in that chapter/annex.

"AP"	Application Proof
"CG"	corporate governance
"CICPA"	the Chinese Institute of Certified Public Accountants
"Code Provisions"	code provisions as identified in MB Appendix/GEM Appendix C1
"Codes"	the Codes on Takeovers and Mergers and Share Buy-backs approved by the Commission as amended from time to time
"CSRE"	the China Standards on Review Engagements issued by the CICPA from time to time
"C(WUMP)O"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) as amended from time to time
"Directors"	the directors of an applicant
"EBIT"	earnings before interest and taxes
"EBITDA"	earnings before interest, taxes, depreciation and amortisation
"ESG"	environmental, social and governance
"FAQs"	frequently asked questions published by the Exchange from time to time
"Hang Seng Index"	a free float-adjusted market-capitalisation-weighted stock-market index in Hong Kong used to record and monitor daily changes of the largest companies of the Hong Kong stock market
"HKAS"	the Hong Kong Accounting Standards issued by the HKICPA from time to time
"HKEX-ESS"	the Exchange's electronic submission system or by whatever name the system is called for submitting APs, OC Announcements and PHIPs for publication on the Exchange's website
"HKSAE"	the Hong Kong Standard on Assurance Engagements issued by the HKICPA from time to time
"HKSRE"	the Hong Kong Standard on Review Engagements issued by the HKICPA from time to time

"GAAP"	generally accepted accounting principles
"GEM Appendix"	Appendix to the GEM Rules
"GEM Chapter"	Chapter of the GEM Rules
"GEM Practice Note"	Practice Note of the GEM Rules
"GEM Rules"	the Rules Governing the Listing of Securities on GEM of the Exchange as amended from time to time
"IAASB"	the International Auditing and Assurance Standards Board
"INED"	independent non-executive Director
"IP"	intellectual property
"IPO"	initial public offering
"ISAE"	the International Standard on Assurance Engagements approved by the IAASB from time to time
"ISRE"	the International Standard on Review Engagements approved by the IAASB from time to time
"LC"	Listing Committee
"Listing Rules"	MB Rules and/or GEM Rules
"LPD"	latest practicable date
"LRC"	Listing Review Committee
"MB Appendix"	Appendix to the MB Rules
"MB applicant"	Main Board applicant
"MB Chapter"	Chapter of the MB Rules
"MB Practice Note"	Practice Note of the MB Rules
"MB Rules"	the Rules Governing the Listing of Securities on the Exchange as amended from time to time
"MD&A"	management discussion and analysis
"Mechanism A"	the offering mechanism in which a prescribed allocation of shares offered in an IPO to the public subscription tranche that follows the initial allocation and clawback mechanism under paragraph 4.2(a) of MB Practice Note 18 (paragraph 4(a) of GEM Practice Note 6)
"Mechanism B"	the offering mechanism under which a minimum initial allocation of 10% of shares offered in an IPO to the public subscription tranche with no clawback mechanism under paragraph 4.2(b) of MB Practice Note 18 (paragraph 4(b) of

	GEM Practice Note 6)
"OC"	overall coordinator
"R&D"	research and development
"SFC"	the Securities and Futures Commission of Hong Kong
"sponsor-OC"	sponsor-overall coordinator

1

Eligibility/Suitability for Listing















1 ELIGIBILITY/SUITABILITY FOR LISTING

1. Eligibility and suitability for listing are fundamental listing requirements and an applicant and its business must be eligible and suitable for listing. The Exchange will assess the facts and circumstances of each case, and retains discretion to reject an applicant's listing on the grounds of eligibility and suitability. Where there are red flags identified during the vetting process (e.g. material inconsistent disclosure or submissions), the Exchange will apply a higher standard of review and expect the sponsor and experts (as the case may be) to provide a higher level of assurance on the relevant matters to ensure the applicant's compliance with the Listing Rules. Applicants are also reminded that the examples and factors taken into account in this chapter are by no means exhaustive and compliance with the Listing Rules may not of itself ensure an applicant's suitability for listing.

2. Accordingly, the sponsor must, before submission of the listing application, be aware of all material issues which, in its reasonable opinion, are necessary for consideration of whether an applicant is eligible and suitable for listing. Sponsors are reminded that they are required to conduct reasonable due diligence in connection with the applicant's listing application[1].

3. Applicants and their advisers are encouraged to consult with the Exchange for guidance on specific issues affecting eligibility or suitability. However, the Exchange will not provide an overall assessment on eligibility and suitability of an applicant as such assessment can only be made when the listing application, together with all requisite materials under the Listing Rules, are submitted.

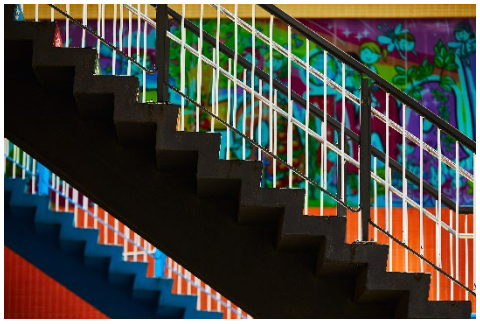
4. This chapter provides guidance on (i) eligibility requirements; and (ii) different circumstances which may give rise to concerns over an applicant's suitability for listing.

5. The Annexes set out listing decisions and FAQs relating to eligibility and suitability requirements for listing.

[1] MB Rules 3A.11(2), 3A.12 (GEM Rules 6A.11(2), 6A.12) and MB Practice Note 21 (GEM Practice Note 2).

1.1A TRADING RECORD AND FINANCIAL ELIGIBILITY

1. This chapter provides guidance on (i) the trading record requirement; (ii) financial eligibility requirement; (iii) calculation of R&D expenditure for a listing under GEM Rule 11.12A(4); and (iv) conditions for granting a waiver from MB Rule 4.04(1) (GEM Rules 7.03(1) and 11.10).



Trading Record Requirement

2. A MB applicant is required to have three financial years trading record pursuant to MB Rules 4.04(1) and 8.05 while two financial years are required for a GEM applicant (GEM Rules 7.03(1), 11.10 and 11.12A)[1]. The Exchange will accept a shorter trading record period on specific circumstances under MB Rules 8.05A and 8.05B (GEM Rule 11.14).

3. A financial year is a period in respect of which any profit and loss account of a company laid or to be laid before it in a general meeting is made up (MB Rule/GEM Rule 1.01). For example, if a MB applicant has a financial year that ends on 31 December was incorporated on 1 April, its accounts in the year of incorporation would only comprise financial results of nine months, and it would still be regarded as a full financial year if those accounts were laid in a general meeting[2].

4. Trading record refers to the record of an applicant's trading activities, including its revenue, expenses, cash flows, assets and liabilities arising from its core businesses. Where an applicant has not yet commenced generating any revenue, and only recorded expenses related to preparation activities (e.g. business planning, construction of factory facilities, procurement of raw materials, preliminary negotiations with potential customers or trial production), such period would be excluded for the purpose of satisfying the adequate trading record.

5. Trading record also refers to the business that forms the subject matter of listing and not the legal entity that forms the applicant (e.g. an applicant acquires the subject matter of listing and presents two sets of accountants' report). Specifically, the trading record requirement is interpreted that an applicant may still meet the trading record requirement if (i) the two accountants' reports together present the historical results of the underlying business that forms the substance of listing for the three (or two) full financial years; (ii) the applicant could demonstrate that other eligibility requirements under MB Rule 8.05 (GEM Rule 11.12A) could be met on the basis of the historical accounts that were presented; and (iii) the reporting accountants confirm that the basis of preparation of the two sets of accountants' reports do not have significant difference.

Financial Eligibility Requirement

6. In satisfying the financial eligibility requirement under MB Rule 8.05 (GEM Rule 11.12A), the income/expense/cash flow items can be counted only if the items are derived from activities that arise from the applicant's ordinary and usual course of business, and such activities were

[1] Applicants under MB Chapters 18A, 18B, 18C and 18 should refer to **Chapters 2.3**, **2.4**, **2.5** and **2.6**.

[2] This means that the trading record requirement of three financial years for MB applicants under MB Rule 4.04(1) (GEM: two financial years, GEM Rules 7.03(1) and 11.10) does not necessarily correspond to a period of three (two) calendar years.

carried out by the applicant in a compliant manner (see paragraphs 9 and 10). In addition, transactions which are not under normal commercial terms (e.g. certain related party transactions) have to be adjusted in the financial eligibility assessment (see paragraph 11).

7. In assessing whether the income is arising from the applicant's ordinary and usual course of business, the applicant must at least demonstrate that (i) the income is actively derived from the applicant's principal business and not incidental to it; and (ii) the timing of income is not arbitrary and to a large extent at the discretion of the applicant's directors.

8. The burden of proof is on the applicant and its sponsor to demonstrate that the income/expense/cash flow items are generated from applicant's ordinary and usual course of business, and the Exchange is not bound to accept the accounting treatment, presentation and judgement made by the applicant, reporting accountants and other experts, and/or competent authorities, as the case may be.

9. The following are non-exhaustive examples of items that are not arising from ordinary and usual course of business, which must be excluded from the financial eligibility assessment:

Items not arising from ordinary and usual course of business
(i) Tax refunds attributable to capitalisation of retained profits and statutory surplus reserves into paid up capital given that the underlying capital restructuring activities were not in the ordinary and usual course of business.
(ii) Fair value changes of preferred shares recorded in accordance with the relevant accounting standards given that equity financing through issuance of preferred shares was not in the ordinary and usual course of business (as opposed to finance costs from bank borrowings).
(iii) Fair value gains derived from securities investments activities by an applicant that is not principally operating such business.
(iv) Interest income derived from cash advances to another company by an applicant not operating money lending/financing business.
(v) Retrospective downward adjustment of royalty fees to the parent group due to change in parent group's transfer pricing policy as advised by external consultant.
(vi) One-off gain on deemed disposal of a subsidiary not in the ordinary and usual course of business of an applicant operating debt financing, assets and proprietary investments businesses.
(vii) Significant income during the track record period that was derived from unconditional grants from local government not directly related to the applicant's restaurant business.
(viii) Gain on disposal of a training institute unrelated to the ordinary and usual course of business of the applicant (a developer of residential and commercial properties).
(ix) Rental income and relevant costs for investment properties not in the ordinary and usual course of business of the applicant (a specialty chain store retailer selling apparel and houseware products).

10. The following are non-exhaustive examples of activities that breached material rules and regulations, and revenue/profit/cash flow generated from such non-compliant business activities must be excluded from the financial eligibility assessment:

Non-compliant business activities
(i) Failure to obtain licences that are material or crucial to the core businesses, or illegal income that would be confiscated under relevant laws.
(ii) A financial services provider operated its business without the requisite licence.
(iii) A construction services provider undertook projects that exceeded the permitted scope of its qualification, and failed to comply with work safety licence requirement until shortly before the date of listing application.
(iv) A money lender systemically failed to comply with certain lending restrictions throughout the track record period and up to the LPD.
(v) A microcredit company provided material amount of loans and guarantees that did not follow local policies which could lead to business licence revocation.

11. Applicants are expected to adjust for related party transactions which are not under normal commercial terms when assessing whether they satisfy the financial eligibility requirement. The Exchange has in the past rejected listing applications where the applicants failed to meet the minimum profit requirement after the Exchange:

    (i) Imputed notional interest expenses on its interest-free loan from its controlling shareholder (i.e. not on normal commercial terms) which was used to finance the applicant's operating expenses; and

    (ii) Added back waived rental expenses of the applicant's significant plant which is owned by its controlling shareholder, and adjusted for other items (including a one-off income and waived directors' emoluments) not in the applicant's ordinary and usual course of business of manufacture and sale of consumer products.

12. **Annex A.1** sets out listing decisions relating to trading record and financial eligibility requirements.

Calculation of R&D Expenditure under GEM Rules 11.12A(4)(f) and (4)(g)

13. GEM Rules 11.12A(4)(f) and (4)(g) set out requirements as to the minimum amount of expenditure on R&D that an applicant must have for the purpose of the market capitalisation/revenue/R&D test. Note 2 to GEM Rule 11.12A(4) states that the Exchange will publish guidance on its website, as amended from time to time, on the items that qualify as (i) expenditure on R&D; and (ii) total operating expenditure for the purpose of that rule.

14. For the purpose of calculating the amount of expenditure on R&D under GEM Rules 11.12A(4)(f) and (4)(g):

    (i) The amount of R&D expenditure for a period includes costs that are directly attributable to the applicant's R&D activities during the period, including development costs for the

period that have been capitalised as intangible assets for accounting purposes, but excluding general, administrative or other costs that are not clearly related to R&D activities;

(ii) Apart from the costs described in sub-paragraph (i) above, the Exchange expects the amount of R&D expenditure to primarily comprise the following costs:

(a) The costs of personnel engaged in R&D activities;

(b) The depreciation, service fees or other directly attributable costs of equipment or facilities used in R&D activities (including data centre operating costs, cloud-based service fees, rentals, utilities and maintenance costs);

(c) The amortisation of intangibles used in R&D activities (to the extent the related R&D costs being capitalised as intangibles have not been included in sub-paragraph (i) above);

(d) The costs of materials consumed in R&D activities; and

(e) Costs of R&D conducted by others on the applicant's behalf (including consulting or testing fees)

(iii) If any other type of costs apart from those listed above is included as qualifying R&D costs, the basis on which such costs are directly attributable to the applicant's R&D activities must be clearly explained.

(iv) The amount of R&D expenditure should exclude:

(a) The initial recognition of any fixed assets relating to the applicant's R&D activities (e.g. capital expenditures for acquiring an R&D centre); and

(b) Any expense of a finance nature.

15. For the purpose of calculating the amount of total operating expenditure under GEM Rule 11.12A(4)(g), an applicant's total operating expenditure for a period is the sum of: (i) its total expenses as reflected in its financial statements during the period, excluding cost of sales and any expense of a finance nature; and (ii) any such costs that have not been recognised as expenses during the period but qualify as R&D expenditure as described in paragraphs 14(i) and (ii) above.

16. Appendix I to this chapter sets out an illustrative example of the calculation of the R&D expenditure ratio under GEM Rules 11.12A(4)(f) and (4)(g).

17. An applicant seeking a listing under GEM Rule 11.12A(4) must include in its listing document a detailed breakdown of its R&D expenditure for each of the two financial years immediately preceding the issue of the listing document.

Waiver from Strict Compliance with MB Rule 4.04(1) (GEM Rules 7.03(1) and 11.10)

18. Applicants usually experience practical difficulty in producing audited accounts for the latest financial year if they intend to issue listing documents shortly after the financial year end, and therefore, would apply for a waiver from strict compliance with MB Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) ("**Relevant Waiver**"). The Exchange would consider granting such waiver if (i) certain conditions are met (see paragraph 19); and (ii) the applicant's proposed listing date is not later than one month before the due date on which its first audited report after listing must be despatched[3]. For example:

	MB Applicant	GEM Applicant
Track record period	Three years ended 31 December 2022 and nine months ended 30 September 2023	Two years ended 31 December 2022 and nine months ended 30 September 2023
Deadline to despatch first annual report for the year ended 31 December 2023 to shareholders[3]	30 April 2024	30 April 2024
Deadline to list on the Exchange[4]	31 March 2024	31 March 2024

19. Generally, it has been the Exchange's practice to consider granting a Relevant Waiver if the conditions in the following table are met. Appendix II to this chapter sets out the detailed conditions that the Exchange ordinarily expects in granting a Relevant Waiver.

	MB Applicant/GEM Applicant	
	Listing document issued	
	Within two months after the latest financial year end	In the third month after the latest financial year end
Deadline to list on the Exchange after latest financial year end[4]	Within three months	
Obtain certificate of exemption from the SFC on compliance with the C(WUMP)O Requirements[5]	✓	✓
Listing document disclosures • Financial information for the latest financial year and a commentary on the results for the year[6]	✗	✓

[3] MB Rule 13.46 (GEM Rule 18.03) requires listed issuers to despatch to their shareholders their annual reports no later than four months after the financial year end.

[4] A Relevant Waiver is only considered if the proposed listing date is not later than one month before the due date on which the first audited report after listing must be despatched. As such, the period between the applicant's latest financial year end and the proposed listing date should not exceed three months.

[5] Section 38(1) or 342(1) of and paragraphs 27 and 31 of the Third Schedule to the C(WUMP)O ("**C(WUMP)O Requirements**").

[6] The financial information to be included in the listing document must (i) follow the same content requirements as for a preliminary results announcement under MB Rule 13.49 (GEM Rule 18.49); and (ii) be agreed with the reporting

	MB Applicant/GEM Applicant	
	Listing document issued	
	Within two months after the latest financial year end	In the third month after the latest financial year end
• A profit estimate for the latest financial year that complies with the relevant Listing Rules[7] or provide justification why a profit estimate cannot be included	✓	✗
• A Directors' statement that there is no material adverse change to an applicant's financial and trading positions or prospects with specific reference to the trading results from the end of the stub period to the latest financial year end	✓	✗
Publication of preliminary results announcement and annual report after listing for the last financial year prior to listing[8]	✓	✗[9]

20. The Exchange will not ordinarily grant a Relevant Waiver (i) if there is a material adverse change in performance since the date to which the latest audited accounts have been made up to the LPD (or up to the end of the forecast period where a profit/loss forecast has been prepared); and/or (ii) a downward trend in recent business performance to the extent that it may not meet the financial eligibility requirement if a Relevant Waiver is not granted.

21. The Exchange may impose additional waiver conditions on listing document disclosure to ensure that there is reasonably sufficient information to enable investors to have an informed assessment of the applicant absent an accountants' report that complies with the Listing Rules, including:

    (i) A profit/loss forecast[10]; and

    (ii) An analysis of the change in performance since the date to which the latest audited accounts have been made up to the LPD (or up to the end of the forecast period where a profit/loss forecast has been prepared), how it compares with the previous period, and detailed reasons for the change.

accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the HKICPA.

7 MB Rules 11.17 to 11.19 (GEM Rules 14.29 to 14.31).

8 As required under MB Rules 13.49 and 13.46 (GEM Rules 18.49 and 18.03).

9 This applies only if the applicant satisfies all the conditions set out in the Note to MB Rule 13.49(1) and Note 4 to MB Rule 13.46(2) (Note 2 to GEM Rule 18.49 and Note 6 to GEM Rule 18.03).

10 Pursuant to MB Rules 11.16 to 11.19 (GEM Rules 14.28 to 14.31).

Appendix I – Illustrative Example of R&D Expenditure Ratio Calculation

Company A is seeking to list on GEM pursuant to market capitalisation/revenue/R&D test under GEM Rule 11.12A(4).

Pursuant to GEM Rules 11.12A(4)(f) and (4)(g), the R&D expenditure must be at least HK$30 million in aggregate for the two financial years immediately preceding the issue of the listing document, and the applicable minimum R&D expenditure ratio for each of the two financial years immediately preceding the issue of the listing document is 15%.

The consolidated statements of profit or loss of Company A and the capital expenditures incurred for the two financial years immediately preceding the issue of the listing document are as follows:

Consolidated statements of profit or loss	**Year 1 HK$'millions**	**Year 2 HK$'millions**
Revenue	**100**	**120**
Cost of sales	(70)	(84)
Gross profit	**30**	**36**
Selling and marketing expenses	(75)	(89)
General and administrative expenses	(51)	(63)
R&D expenses	(21)	(30)
Loss from operations	**(117)**	**(146)**
Finance costs	(1.7)	(1.8)
Loss before tax	**(118.7)**	**(147.8)**
Income tax expense	(0.5)	(0.6)
Loss for the year	**(119.2)**	**(148.4)**

Capital expenditures incurred	**Year 1 HK$'millions**	**Year 2 HK$'millions**
Acquisition of R&D centre (fixed asset)[1]	10	-
R&D equipment acquired and capitalised (fixed asset)[1]	7	9
Intangible asset acquired from third parties and capitalised[2]	5	-
Internal development costs capitalised as intangible asset[2]	2	3
	24	**12**

Note 1: The depreciation expense of these fixed assets is included in R&D expenses.
Note 2: The amortisation of these intangible assets began at the beginning of year 2 for R&D activities with annual amortisation expense of HK$2 million (included in the line item "R&D expenses").

Appendix I – Illustrative Example of R&D Expenditure Ratio Calculation (Cont'd)

Calculation of R&D expenditure ratios

Step 1: Compute the annual and total R&D expenditure for the track record period

	Year 1 HK$'millions	Year 2 HK$'millions
R&D expenses	21	30
Adjustments:		
Add: Intangible asset acquired from third parties and capitalised	5	-
Add: Internal development costs capitalised as intangible asset	2	3
Less: Amortisation expense of capitalised intangible assets included in R&D expenditure	-	(2)
Annual R&D expenditure (A)	**28**	**31**

Total R&D expenditure for the two financial years prior to listing (HK$'millions)	**59**

Step 2: Compute the annual operating expenditure for the track record period

	Year 1 HK$'millions	Year 2 HK$'millions
R&D expenses	21	30
Selling and marketing expenses	75	89
General and administrative expenses	51	63
Adjustments:		
Add: Intangible asset acquired from third parties and capitalised	5	-
Add: Internal development costs capitalised as intangible asset	2	3
Less: Amortisation expense of capitalised intangible assets included in R&D expenditure	-	(2)
Annual operating expenditure (B)	**154**	**183**

Step 3: Compute the annual R&D expenditure ratio for the track record period

		Year 1	Year 2
Annual R&D expenditure ratio =	**(A)/(B)**	**18%**	**17%**

Result:

As the R&D expenditure in aggregate for the two financial years is at least HK$30 million AND the annual R&D expenditure ratio of each of the two financial years is at least 15%, Company A can meet the R&D requirement under GEM Rule 11.12A(4)(f) and (4)(g).

Appendix II – Conditions to a Relevant Waiver

The conditions that the Exchange would ordinarily expect for granting a waiver from MB Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) are as follows:

For any MB or GEM applicant:

(i) The applicant must list on the Exchange within three months after the latest financial year end.

(ii) The applicant must obtain a certificate of exemption from the Securities and Futures Commission on compliance with Section 38(1) or 342(1) of and paragraphs 27 and 31 of the Third Schedule to the C(WUMP)O.

In the case of a MB applicant or GEM applicant which issues its listing document within two months after the latest financial year end:

(iii) A profit estimate for the latest financial year (which must comply with MB Rules 11.17 to 11.19 (GEM Rules 14.29 to 14.31)) must be included in the listing document or the applicant must provide justification why a profit estimate cannot be included in the listing document.

(iv) There must be a Directors' statement in the listing document that there is no material adverse change to its financial and trading positions or prospects with specific reference to the trading results from the end of the stub period to the latest financial year end.

In the case of a MB applicant or GEM applicant which issues its listing document in the third month after the latest financial year end:

(v) The listing document must include the financial information for the latest financial year and a commentary on the results for that financial year. The financial information to be included in the listing document must (a) follow the same content requirements as for a preliminary results announcement under MB Rule 13.49 (GEM Rule 18.49); and (b) be agreed with the reporting accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the HKICPA.

1.1B MANAGEMENT CONTINUITY

1. In order for investors to assess the management's ability to manage an applicant's business and the likely performance of that business in the future, the applicant is required to demonstrate management continuity for at least the three[1] (GEM: two) preceding financial years and up to the date of listing (the "**Relevant Period**") under MB Rule 8.05 and paragraph 2 of MB Practice Note 3 (GEM Rule 11.12A(3)).

2. Specifically, an applicant must demonstrate that there has been no change in the majority of the applicant's board of directors and senior management and also the directors and senior management of its principal operating subsidiaries during the Relevant Period.

3. The Exchange ordinarily considers the management continuity requirement to be a question of fact and will assess the substance of the management. In some cases, this may mean that the management continuity requirement could be satisfied where less than a majority of the board of directors and/or senior management continue to serve throughout the Relevant Period.

4. In assessing an applicant's management continuity, the Exchange principally considers the following:



Whether an identifiable group of individuals most relevant and responsible for the track record results of an applicant remained in positions of responsibility with the applicant throughout the Relevant Period;



Whether such group of individuals would form the core management of the applicant at the time of listing and thereafter;



Whether the management of the actual operation of an applicant that contributed directly to the track record results had been entrusted to specific directors or senior management; and



Attributing proportionately greater responsibility to officers with more senior positions than those with more junior positions to reflect the formal responsibilities of senior officers in their corporate roles.

5. **Annex A.2** sets out listing decisions on applicants which demonstrated their compliance with the management continuity requirement.

[1] Except where a shorter trading record period is accepted pursuant to MB Rules 8.05A and 8.05B (GEM Rule 11.14).

1.1C OWNERSHIP CONTINUITY AND CONTROL

1. The ownership continuity and control requirement under MB Rule 8.05 (GEM Rule 11.12A(2)) is intended to ensure that the applicant's financial performance resulted from the actual dynamics between the controlling shareholder and the management for at least the most recent financial year up until the time immediately prior to listing (the "**Relevant Period**")[1].

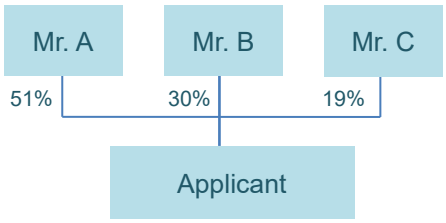
2. The Exchange interprets "control" to mean voting control, as distinguished from beneficial interest[2]. Applicants must have been operating as an integrated unit under the same shareholder who is able to exert substantial influence on the management since the beginning of the most recent financial year. When there is no controlling shareholder or a group of controlling shareholders, references to "controlling shareholder" or "a group of controlling shareholders" would be to the single largest shareholder or the group of shareholders being considered as the single largest shareholder, as the case may be.

3. The process of identifying the "controlling shareholder" depends on the facts and circumstances of each case. The Exchange has the power to deem any shareholder to be a "controlling shareholder" or a group of "controlling shareholders" based on the facts and circumstances of that case.

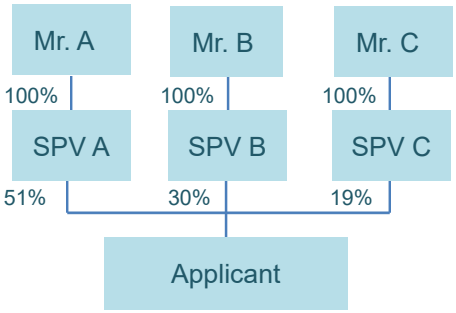
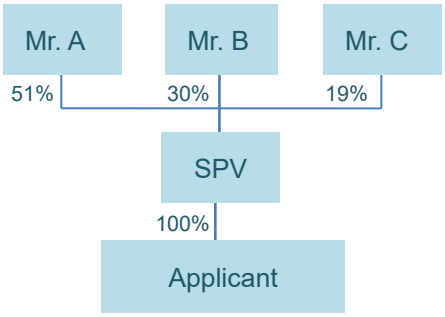
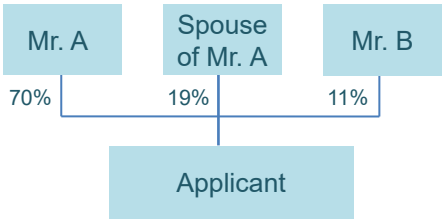
4. Failure to satisfy the ownership continuity and control requirement may raise concerns on packaging as there may be a material change in influence on management. An applicant can rebut the above presumption by demonstrating that there was no material change in influence on management despite the change in controlling shareholder since a change in controlling shareholder will not always render the applicant ineligible for listing.

Identification of Controlling Shareholder

5. The following are non-exhaustive examples of how the Exchange interprets the definition of controlling shareholder:

Structure	Who are the controlling shareholders?	Reasons
Example 1  	Mr. A and Mr. B	Each of them is entitled to exercise 30% or more of the voting power at general meetings, but Mr. C is not.

[1] For applicants with offering, it refers to time immediately before the offering becomes unconditional.
[2] See MB Rule 1.01 (GEM Rule 1.01) for the definition of controlling shareholder.

Structure	Who are the controlling shareholders?	Reasons
Example 2[3]  	Mr. A, Mr. B, SPV A and SPV B	Each of Mr. A and Mr. B (but not Mr. C) is entitled to, through their respective investment vehicles (i.e. SPV A and SPV B), control the exercise of 30% or more of the voting power at general meetings.
Example 3[4]  	Mr. A, Mr. B, Mr. C and SPV	Mr. A, Mr. B and Mr. C have decided to restrict their ability to exercise direct control by holding their interests through a common investment vehicle (i.e. SPV). They are presumed to be a group of controlling shareholders. *If any of Mr. A, Mr. B and Mr. C do not consider themselves as part of the group of controlling shareholders, the applicant can rebut this presumption.*
Example 4  	Mr. A and spouse of Mr. A	Mr. A and his spouse are presumed to be a group of controlling shareholders by virtue of their spousal relationship. *If spouse of Mr. A does not consider himself/herself as part of the group of controlling shareholders, the applicant can rebut this presumption.*

6. During the Relevant Period, (i) the shareholders constituting a group of controlling shareholders must not change (i.e. no addition or departure of shareholders); (ii) there must be no material changes in the voting interests held by each of them; and (iii) there are no new controlling shareholders. The Exchange will assess whether any change in the voting interests held by each shareholder constituting a group of controlling shareholders amounts to a material change on a case-by-case basis.

[3] This example assumes that each of SPV A, SPV B and SPV C is an investment vehicle of Mr. A, Mr. B and Mr. C, respectively, and exclusively holds the individuals' interests in the applicant and has no operations. If such investment vehicles do not exclusively hold the interests in the applicant and/or have other businesses, the Exchange will assess such cases on a case-by-case basis.

[4] This example assumes that the SPV is an investment vehicle of Mr. A, Mr. B and Mr. C and exclusively holds their interests in the applicant and has no operations. A listed issuer, for example, would not be an SPV. If such investment vehicle does not exclusively hold the interests in the applicant and/or has other businesses, the Exchange will assess such cases on a case-by-case basis.

7. However, the Exchange ordinarily will not consider an applicant to have breached the ownership continuity and control requirement if the controlling shareholder has transferred the shares to (i) a trust for estate planning purpose and the controlling shareholder has retained control over such trust and the applicant (see Company C in **Annex A.3**); or (ii) another investment vehicle controlled by the controlling shareholder.

Factors for Treating Individual Shareholders as part of a Group of Controlling Shareholders

8. The following factors are typically considered when assessing if any individual shareholder has been part of a group of controlling shareholders:

   (i) The nature of shareholders' relationship, including how they had associated with each other in any past or present business dealings and whether there had been in existence any formal or informal arrangements among the individual shareholders;

   (ii) How the individual shareholders jointly affected their "management and control" as a unit (e.g. how they had voted on shareholders' resolutions involving key decisions, mutual trust and bonding as a group in consensus building process); and

   (iii) Whether a group of shareholders could be regarded as "acting in concert" for the purposes of the Takeovers Code.

9. **Annex A.3** sets out listing decisions on applicants which demonstrated or failed to demonstrate their compliance with the ownership continuity and control requirement.

1.2A BUSINESS SUSTAINABILITY

1. This chapter covers non-exhaustive examples that an applicant's business may raise sustainability concerns, which may in turn affect its suitability for listing. It covers discussions on some common features of, and circumstances leading to, questionable business sustainability and our vetting focus or approach.

Features that May Give Rise to Business Sustainability Concern

2. Notwithstanding an applicant meets the relevant eligibility requirements under MB Rule 8.05 (GEM Rule 11.12A) at the time of filing, if it recorded deteriorating revenue and profit and/or material losses during or after the track record period, there may be concerns on its business sustainability. Factors that the Exchange would normally consider include:

   (i) How susceptible an applicant's financial performance is to changes beyond its control (e.g. any slight increases in operating costs, such as raw material costs, which cannot be fully passed on to its customers may result in net losses)[1].

   (ii) The underlying causes of the deteriorating financial performance and whether such downward trend is expected to continue (e.g. change in consumer preferences or products/services replaced by alternative technology), or whether it is due to the cyclical nature of the industry.

   (iii) Whether an applicant has demonstrated that it is able to effectively mitigate its exposure to the relevant risks or to turn around the business (e.g. by diversifying its revenue sources, expanding its customer base, or cutting costs).

3. Below are examples of features of an applicant which may give rise to concerns on business sustainability:

Deteriorating and/or questionable financial performance/ capability	(i) Heavy indebtedness with minimal cash at bank and unutilised banking facilities, net current liabilities and/or sole reliance on bank facilities to maintain a positive cash balance. (ii) Uncertainty as to whether the applicant could obtain independent financing after using up the unutilised banking facilities guaranteed by its controlling shareholders and ceasing its reliance thereon for financial support after listing. (iii) Significant trade receivables, long and deteriorating receivable turnover days, posing potential recoverability issue, inadequate credit risk control measures to ascertain creditworthiness of business partners and customers, and loss of major customers. (iv) Reliance on government discretionary subsidies to meet debt payments.

[1] This is particularly relevant for applicants that marginally meet the minimum profit requirement under the MB Rules (minimum cash flow requirement under GEM Rules), have no recurring revenue source and a thin profit margin, or have large cash flow mismatch and have not gone through a full collection cycle.

		(v) Loss-making history which would likely continue in the foreseeable future and would be further aggravated by the uncertainty of the applicant's proposed business expansion plans.
Susceptible business model/unusual transactions		(i) Applicants that are primarily price takers and have little bargaining power over customers and/or suppliers. (ii) Cash flow mismatch between settlement of expenses and the long billing cycle in respect of the applicant's major customers. (iii) High customer concentration raising doubts as to the applicant's bargaining powers with its customers and material adverse changes that would affect the applicant's performance. See **Chapter 1.2B** for guidance on material reliance on counterparties. (iv) Projects with very long break-even and/or payback period. (v) Unusual features of business arrangements (e.g. termination of the master lease agreement with a property owner without any penalty during the track record period) without compelling evidence to support that the applicant's practice was in line with an industry norm. (vi) Infrequent, unpredictable non-recurring nature of sales without analysis on the applicant's ability to sustain its business under the austerity measures taken by the local government. (vii) Questionable payments to a connected person representing a material portion of the applicant's selling, general and administrative expenses during the track record period.
Significant change in core business		(i) Potential distortion of an applicant's track record results, with a change in core business rendering such results not representative of the applicant's future performance. Non-exhaustive examples include: (a) Material changes on the basis of calculating income received, and expenses and charges payable; and (b) No track record of the current business structure to provide comfort on the effectiveness of the applicant's internal control, management and operational systems. (ii) Material change in the applicant's business model, cost structure, profitability and risk profile. (iii) An applicant's failure to demonstrate that its business is sustainable, as its management lacks experience in operating a new business, which is fundamentally different from the existing business and will form a material part of the applicant's business going forward.
External factors beyond the applicant's control		(i) Changes which imminently threaten an applicant's operations and prospects (e.g. changes in regulatory requirements which may result in the applicant being unable to continue to operate its business in its current form or at its current profitability level, or development of

	alternative technology which replaces the applicant's products/services). *Note: To address these concerns, the Exchange expects the applicant to affirmatively demonstrate that such changes are unlikely to materialise or will not affect the sustainability of the applicant's business.*

Substantial Reliance by Property Companies on Fair Value Gains on Investment Properties

4. While fair value gains on investment properties may be taken into account in the assessment of whether a property company can satisfy the minimum profit requirement under MB Rule 8.05(1)(a), concerns on the applicant's sustainability may arise if a significant portion of its profit is derived from fair value gains arising from its investment properties. The Exchange considers the business of an applicant in the property business unsustainable and unsuitable for listing if it:

   (i) Cannot satisfy the minimum profit requirement after excluding unrealised gains of its investment properties; and

   (ii) Did not have any substantial business during its track record period (e.g. sales of properties or recurring rental income).

5. In considering this issue, the Exchange will closely scrutinise the information submitted by the applicant, including (i) profit and cash flow forecasts; (ii) sensitivity or breakeven analysis; and (iii) any inconsistent growth when compared with the industry and/or peers, and the sponsor's due diligence on the reasonableness of the underlying assumptions.

Other Considerations

6. In assessing suitability for listing, the Exchange may also take into account factors such as whether a listing of an applicant is consistent with its business strategies, including the proposed use of proceeds and whether an applicant has genuine funding needs[2]. If an applicant is unable to demonstrate the commercial rationale for listing, the Exchange may find the applicant not suitable for listing. Applicants should note that there is no prescribed bright-line test in determining suitability[3].

7. In this regard, the Exchange expects a robust analysis of the following areas in the listing document including, among other things:

Use of proceeds	Disclose specific use of proceeds that is commensurate with an applicant's past and future business strategies and observed industry trends.
Future objectives and strategies	Demonstrate that an applicant has a detailed strategic plan for its business operations and growth.

[2] If an applicant is able to justify its use of proceeds, the Exchange will not examine availability of internal sources of funding or banking facilities.

[3] In May 2021, the SFC and the Exchange issued a joint statement on IPO-related misconduct which sets out their general approach towards some regulatory issues noted in certain new listings and how they may deploy their respective powers to tackle these issues.

Profit and revenue growth	Substantiate the business sustainability where an applicant has experienced, or is expected (after listing) to record, decreasing/low profit and revenue growth.
Market prospects	Demonstrate that it is feasible and that an applicant has both the ability and resources to modify its business to respond to the changing demands of the market.
Cost of listing	Explain how the advantages of listing outweigh cost if a significant portion of listing proceeds will be applied to listing expenses.

8. **Annex A.6** sets out listing decisions on applicants which failed to demonstrate their business sustainability.

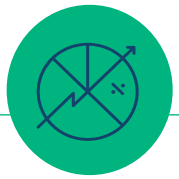
1.2B MATERIAL RELIANCE ON COUNTERPARTIES

1. This chapter discusses factors that the Exchange considers in assessing an applicant's suitability for listing if it has material reliance on a counterparty, including controlling shareholder and its close associates, substantial shareholder, connected person[1], a major supplier or a major customer (collectively, the "**Relevant Counterparty**").

2. Non-exhaustive examples of material reliance include:



(i) High customer or supplier concentration, or both (e.g. captive business model)



(ii) Dependence on a limited number of distribution channels to market its products (see paragraphs 7 to 9 below for exceptions)



(iii) Dependence on another party, such as the controlling shareholder and its close associates, for critical functions (e.g. sales, distribution and procurement)

3. Material reliance on a Relevant Counterparty raises concerns (e.g. decrease in sales, increase in raw material costs/production time and cost of business disruption) that may threaten business sustainability and thus suitability for listing, if it is likely that the relationship with such party may materially adversely change or terminate.

Assessing Material Reliance

4. Non-exhaustive factors that the Exchange considers in assessing material reliance:

   (i) Whether the Relevant Counterparty is mutually dependent on the applicant (e.g. if the applicant is the sole supplier of the Relevant Counterparty for a highly bespoke product or the sole/major customer of the Relevant Counterparty, the risk that the Relevant Counterparty will terminate the relationship is lower).

   (ii) Whether the applicant has an established relationship or long-term agreement with the Relevant Counterparty.

   (iii) Whether the material reliance is an industry norm (e.g. a Relevant Counterparty dominates the industry in which it operates due to regulatory restrictions, high entry barriers or other factors. An applicant that operates in such industry is unlikely to diversify or reduce its reliance).

5. An applicant may demonstrate that, despite its material reliance on a Relevant Counterparty,

[1] If the Relevant Counterparty is a connected person, applicants must comply with requirements on continuing connected transactions (MB Chapter 14A/GEM Chapter 20). See **Chapter 3.9** for guidance.

any change in the relationship will not have a material adverse impact on its business because it is able to effectively mitigate its risk exposure (e.g. if the Relevant Counterparty is a supplier for raw materials that are readily available or for which there are reasonable substitutes, the applicant may easily procure such raw materials from a different supplier at a similar price or substitute it with another product).

6. Material reliance on a Relevant Counterparty is a matter of disclosure if, absent of red flags to indicate otherwise, (i) the relationship between the applicant and the Relevant Counterparty is unlikely to materially adversely change or terminate; or (ii) the applicant is/will be able to effectively mitigate the relevant risk exposure.

   Such disclosure should cover:

	(i) Background of the Relevant Counterparty.
	(ii) The business relationship, the nature of reliance and details of the arrangements between the applicant and the Relevant Counterparty.
	(iii) Basis that the likelihood of the relationship with the Relevant Counterparty to be subject to material adverse change/termination is low; or basis that the applicant is/will be able to effectively mitigate its exposure to any material adverse changes to or termination of the relationship with the Relevant Counterparty.

Internet Technology Sector/Internet-Based Business Models

7. Many companies in the internet technology sector or that have internet-based business models at the early stage of their development often extensively use the services offered by the businesses of their parent companies, or another connected person, to facilitate the sales and marketing of their own products or services (e.g. an applicant may promote its products or services using the internet-based social network platform of its parent company).

8. Given the nature of its industry and business, the applicant is usually unable to reduce its level of reliance in the foreseeable future. Such reliance is typically not mutual and complementary and is usually more important to the applicant than the parent company at the time of listing. It is also unlikely that the applicant will be able to switch to using another platform, given industry competition.



9. The Exchange will not consider such applicant to be unsuitable for listing if there are no red flags indicating its relationships with the parent company or another connected person are likely to be terminated or otherwise subject to material adverse change.

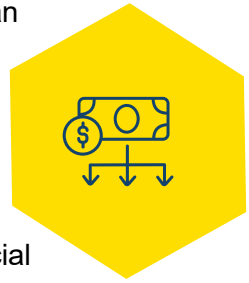
Financial Assistance from the Controlling Shareholder and its Close Associates

10. An applicant may receive material financial assistance (e.g. loans, guarantees or other forms of collateral or security) from the controlling shareholder and its close associates ("**Financial Support**").

11. Given the practical difficulty in assessing the extent to which Financial Support will be reduced

after listing, the Exchange presumes such Financial Support will be withdrawn (absent evidence to the contrary) in assessing sustainability.

12. For clarity, settlement of Financial Support is not required if an applicant can demonstrate that its business is sustainable without Financial Support. Non-exhaustive examples:



(i) The applicant is able to obtain independent financing (i.e. without Financial Support) on comparable terms.

(ii) The applicant has sufficient liquid assets available to meet its financial needs.

13. **Annex A.7** sets out listing decisions where applicants failed to demonstrate how their material reliance on Relevant Counterparties would not affect their business sustainability, and therefore suitability for listing.

1.2C PERSONS WITH SIGNIFICANT INFLUENCE AND SUITABILITY OF DIRECTORS

1. This chapter provides guidance on the Exchange's general approach in assessing how Integrity Non-Compliances (as defined below) affect the suitability of an individual to act as a director, which may in turn affect the applicant's suitability for listing.

Integrity Non-Compliances

2. An individual involved in non-compliances that entail fraud, deceit or dishonesty ("**Integrity Non-compliances**"), whether legally prosecuted or not, may not be suitable to be a director of a listed company as Integrity Non-compliances impugn a culpable director's character and integrity in contravention of the standards required under MB Rules 3.08 and 3.09 (GEM Rules 5.01 and 5.02).

3. Non-exhaustive examples of Integrity Non-compliances:

   (i) False accounting
   (ii) Tax evasion
   (iii) Bribery
   (iv) Conspiracy to defraud
   (v) Misappropriation of funds
   (vi) Money laundering
   (vii) Providing false and misleading testimony to regulators

Culpable Individual is in a Position to Exert Significant Influence over the Applicant

4. If the culpable individual/director is also in a position to exert control or significant influence over the applicant's operation and management (e.g. controlling shareholder), the applicant may not be suitable for listing irrespective of whether the individual ceases to be a director.

5. If a controlling shareholder is culpable for the Integrity Non-compliances, so long as such controlling shareholder has the ability to exert significant influence over the applicant, the applicant will not be suitable for listing because it would be subject to significant influence by such controlling shareholder.

6. The assessment of significant influence will be determined on a case-by-case basis. Non-exhaustive considerations include the controlling shareholder's:



Economic interest in the applicant



Relationship with the other shareholders, directors and members of senior management of the applicant



Involvement in the operation and management of the applicant's business

Assessment by the Exchange

7. The Exchange expects the culpable director or controlling shareholder to cease being a director or controlling shareholder before listing. Such culpable director or controlling shareholder should seek guidance from the Exchange before they become the controlling shareholder or accept nomination to be a director of an applicant.

8. The Exchange will take into account all relevant facts and circumstances in determining whether Integrity Non-compliances would render the applicant unsuitable for listing, including:



(i) Underlying reasons for the Integrity Non-compliances and relevant mitigating factors;

(ii) Integrity Non-compliances' operational and financial impact – an applicant may be requested to demonstrate that it could still meet the relevant eligibility requirements after adjusting its trading record results for the impact of the Integrity Non-compliance and that there would not have been any material adverse impact on its business and financial performance had it complied with the rules and regulations and going forward;

(iii) Culpable person's influence on the applicant's operations, internal controls and trading record results; and

(iv) Whether any effective internal control measures have been implemented (and for how long) to avoid re-occurrence of similar Integrity Non-compliances.

9. **Annex A.8** sets out listing decisions on Integrity Non-compliances of the directors and/or persons with significant influence.

1.2D NON-COMPLIANCES

1. This chapter provides guidance on the materiality assessment of non-compliance incidents, their potential impact on suitability and eligibility for listing, the Exchange's expectation on rectification and disclosure required in a listing document.

Types of Non-compliances

2. Non-compliance incidents are broadly categorised into the following types:

Material non-compliance

Non-compliance incidents which, individually or in aggregate, have had or are reasonably likely to have in the future, material financial or operational impact on the applicant.

For example, non-compliance incidents giving rise to significant financial penalties or which may result in the closure of material operating facilities.

Systemic non-compliance

Not material non-compliance. However, their recurring nature may reflect negatively on the applicant's or its directors'/senior management's ability or tendency to operate the applicant in a compliant manner.

Immaterial non-compliance

Neither material non-compliance nor systemic non-compliance.

3. Material non-compliance may give rise to concerns on suitability and eligibility.

Suitability



(i) An applicant's material non-compliance may raise concerns on the suitability of the directors involved in such non-compliance which may affect the applicant's suitability for listing.

(ii) See **Chapter 1.2C** for guidance on persons with significant influence and suitability of directors.

Eligibility

(iii) With respect to revenue/profit/cash flow generated from activities that constitute material non-compliances, the applicant is expected to demonstrate that:



(a) It could still meet the relevant eligibility requirements under the Listing Rules after adjusting its trading record results for the impact of such material non-compliances; and

(b) There would not have been any material adverse impact on its business and financial performance had it complied with the relevant rules or regulations and going forward.

(iv) See **Chapter 1.1A** for guidance on trading record and financial eligibility.

4. **Annex A.9** sets out listing decisions on non-compliances which rendered applicants unsuitable or ineligible for listing.

Rectification

5. The Exchange normally expects material non-compliances to be fully rectified before listing unless the rectification is not applicable or possible.

6. For systemic or immaterial non-compliances, while the Exchange retains discretion to require rectification and related disclosure, generally no rectification is required. The decision to rectify rests with the applicant's directors and sponsor.

Guidance on Disclosure

7. An applicant with material and/or systemic non-compliances should include the following information as a standalone sub-section of the "Business" section in a listing document (rather than scattered across the listing document), a brief summary in the "Summary" section and a corresponding risk factor in the "Risk Factors" section.

General disclosure	(i) Reasons for, nature and extent of the non-compliance. (ii) The possible consequences (including the likelihood and the amounts that may be charged or penalised) for the non-compliance. (iii) The identity and position of the director/senior management involved in the non-compliance (if any). (iv) Whether the applicant has been penalised for the non-compliance during the track record period and up to the LPD or is likely to be penalised in the future: (a) With confirmation from the competent authorities (and a legal opinion confirming the competence of the relevant authorities); and (b) If applicable, the actual or maximum penalty (including the amounts), any provisions made (if not, reasons therefor), and the potential operational and financial impact on the applicant (if material). (v) Details of the enhanced internal control measures (which are expected to have been implemented prior to listing) to prevent their recurrence, including: (a) When they were implemented; (b) The identity, position, qualification and experience of the personnel who are responsible for ensuring compliance; (c) The directors' and the sponsor's view on the adequacy and effectiveness of the enhanced internal control measures and basis thereof; and

	(d) If an independent internal control expert has been separately engaged to review the internal controls (see **Chapter 3.7** for guidance on internal control engagements): (1) The identity and the scope of review of the internal control expert; (2) Its major findings and recommendations; and (3) The applicant's timing of implementation of such recommendations (and the internal control expert's follow-up review, if any). (vi) The bases of the directors' and the sponsor's views that (a) the directors involved in the non-compliance are suitable to act as the applicant's directors under MB Rules 3.08 and 3.09 (GEM Rules 5.01 and 5.02); and (b) the applicant is suitable for listing under MB Rule 8.04 (GEM Rule 11.06).
Disclosure on rectification	(i) The applicant should disclose, with reference to paragraphs 5 and 6 above as applicable: (a) The rectification actions taken; (b) Explanations on why rectification is not applicable or possible; or (c) Where the applicant is able to demonstrate that the non-compliance can only be rectified shortly after listing: (1) A legal adviser's confirmation that there is no impediment to the rectification of the non-compliances; (2) A statement that the applicant will disclose the progress of the rectification in the interim/annual reports and detailed explanation for any delay in the rectification; and (3) What and when the rectification actions were taken/will be taken.
Disclosure applicable to non-compliant bill financing activities	(i) Material non-compliances that involve bill financing from banks[1] and interest rate/loan arbitrage[2] that are not criminal in nature may be addressed by disclosure. (ii) The applicant will be required to cease all non-compliant bill financing and for a period of at least 12 months to demonstrate that its business is sustainable when it is in compliance.

[1] For example, if the interest rate for trade financing is lower than the market interest for commercial loans, a borrower obtains trade financing even if it is not supported by actual underlying transactions.

[2] For example, if the interest rate in Hong Kong is lower than that in the PRC, a borrower with an RMB deposit in a PRC bank obtains an RMB-denominated letter of credit guaranteed by its deposit, and then uses such letter of credit to pay its subsidiary in Hong Kong for fictitious purchases. The Hong Kong subsidiary then obtains this letter of credit and uses it as collateral to obtain a foreign currency loan from a Hong Kong bank.

(iii) The applicant should disclose:

(a) The information required under “General disclosure” and “Disclosure on rectification” in this chapter;

(b) The amount of gains from the non-compliant bill financing;

(c) Unqualified audited financial results covering at least one complete 12-month period after the cessation of the non-compliant bill financing; and

(d) The independent internal control expert’s review and conclusions at the end of a 12-month audited period on the applicant’s enhanced internal control measures indicating that there are no major negative findings on the applicant’s internal control system during such 12-month audited period.

1.2E COMPETITION WITH CONTROLLING SHAREHOLDERS

1. This chapter provides guidance on factors that the Exchange considers in assessing an applicant's competition with its controlling shareholder and other business in which the controlling shareholder has an interest[1] (collectively, the "**Controlling Shareholder Group**").

2. Competition referred to in this chapter arises when part or all of the business (the "**Excluded Business**") of the Controlling Shareholder Group not included in the applicant competes or is likely to compete, either directly or indirectly, with the applicant's business. There is no bright-line quantitative test for the level of competition. Whenever there is competition, an applicant should:

   (i) Disclose relevant financial and operating data (e.g. revenue, gross and net profit and margins and number of stores) to give investors a sense as to the extent and materiality of the competing business to both the Controlling Shareholder Group and the applicant.

   (ii) Demonstrate that the applicant is capable of carrying on its business independently of, and at arms' length from, the Excluded Business (the "**R8.10 Independence Requirement**").

Business Delineation and Conflicts of Interest Measures

3. Competition may lead to conflicts of interest. In particular, an applicant and the Controlling Shareholder Group usually have common directors and/or senior management.

4. In assessing the R8.10 Independence Requirement, the Exchange considers:

   (i) Whether the businesses of the applicant and the Controlling Shareholder Group are clearly delineated from each other such that there would be no competition and the risk of potential conflicts of interest is comparatively low.

   (ii) How actual or potential conflicts of interest are managed. If conflicts of interest are not effectively managed, the applicant's ability to make commercial decisions independently and in the interests of its shareholders as a whole will be in question, affecting its suitability for listing.



[1] See note to MB Rule 8.10(1) for definition of "interest".

Business Delineation

5. The following are non-exhaustive examples of business delineation adopted by some applicants to distinguish themselves from the Excluded Business of their respective Controlling Shareholder Groups.



(i) Using different business models under which the same/similar products are sold to different customers (e.g. manufacturing vs. retail of the same products; wholesalers selling to distributors vs. retailers selling to end customers).

(ii) Producing/providing non-substitutable products/services in the same industry (e.g. highly specialised bespoke products vs. mass-produced standardised products; foundation construction company vs. decoration and fitting out company). In contrast, companies selling substitutable products via different channels (e.g. online vs. physical stores) or platforms (e.g. e-commerce vs. social media) are not considered as fully delineated, since their products are substitutes for each other and their potential customers have a high degree of overlap.

(iii) Operating in different geographical locations (e.g. waste treatment plants in different locations; power generation companies in different municipalities selling to the same power grid; and drugs approved and sold in Country X vs. outside Country X).

Conflicts of Interest Measures

6. The following are non-exhaustive examples of conflicts of interest measures adopted by some applicants[2].



(i) Restricting the senior management of the applicant from participating in the competing business' management, and vice versa.

(ii) Limiting the number of overlapping directors holding executive roles in both the applicant and the Controlling Shareholder Group.

(iii) Engaging additional independent consultants to advise the INEDs where needed.

(iv) Having a sufficient number of INEDs, who have requisite knowledge, industry experience and expertise, on the applicant's board to advise on the conflicted transactions and business decisions, as overlapping directors would abstain from voting.

(v) Enhancing CG measures, such as formation of a dedicated committee with established procedures to monitor any potential conflicts of interest.

[2] The greater the possibility of actual or potential conflict of interest, the greater the need for enhanced management measures to ensure management independence. The assessment of the possibility of actual/potential conflicts of interest depends on facts and circumstances, including extent of competition between the applicant's business and the Controlling Shareholder Group's business and the industry in which the applicant and the Controlling Shareholder Group operates.

7. In a spin-off scenario, the applicant's business should be clearly delineated from the remaining business of the parent and comply with the requirements in this chapter.

Undertakings

8. To demonstrate business delineation, controlling shareholders of some applicants have (i) provided an enforceable non-competition undertaking in favour of the applicant; (ii) granted a right of first refusal to the applicant if it is aware of a new business opportunity relating to its business or intends to dispose of the competing business; and/or (iii) granted a call option to the applicant to acquire the competing business in the future (collectively, the "**Undertakings**").

9. Undertakings are not mandatory, but may be helpful to ensure delineation or limit the extent of competition after listing. The Exchange assesses enforceability of the Undertakings based on the following:

   (i) The effect of exemption clauses on the Undertakings.

   (ii) How independently an applicant can exercise its right to enforce the Undertakings in light of its own corporate governance.

   (iii) The degree to which the applicant's management and the controlling shareholders are closely connected.

10. Company C under **Annex A.6** sets out a listing decision in which the Exchange rejected an application partly due to extreme competition between the applicant and its controlling shareholder.

2



Special Listing Regimes

2.1 OVERSEAS ISSUERS

1. This chapter provides guidance for applicants that are incorporated outside of Hong Kong or the PRC (i.e. overseas issuers), including those seeking a dual-primary or secondary listing. See also the "Listing of Overseas Issuers" on the Exchange's website for further information.

2. Overseas issuers may face practical or operational difficulties complying with the Listing Rules or the Codes where there is a potential conflict between the laws and regulations of its home jurisdiction and the Listing Rules or the Codes.

Below are some examples of foreign laws and regulations that may cause compliance difficulties with the Listing Rules or the Codes:

- Those that prohibit a company from restraining or restricting its shareholders from voting on any particular resolution, including shareholders with a material interest in the transaction or arrangement being voted upon.
- Those that require a management or supervisory body of a company to approve matters that, under the Listing Rules, would require shareholders' approval.
- Those that require a company to employ a board of statutory auditors, instead of establishing a board committee to oversee accountability and audit related matters. A board of statutory auditors may play a role similar to audit committees under the Listing Rules and may have broader oversight responsibilities and greater independence.
- Those that do not recognise a nominee company holding securities on behalf of third parties, such as HKSCC Nominees Limited ("**HKSCCN**") that holds listed securities on behalf of CCASS participants.

3. Overseas issuers subject to such compliance difficulties may need to take alternative procedures, including providing undertakings to the Exchange to put in place a shareholder protection measure or by demonstrating it has adopted internal compliance measures that achieve the same outcome. Companies are strongly encouraged to consult the Exchange and the Takeovers Executive[1] (where applicable) at the earliest opportunity.

Core Shareholder Protection Standards and Admission to CCASS

4. MB/GEM Appendix A1 requires an issuer to demonstrate how the domestic laws, rules and regulations to which it is subject and its constitutional documents, in combination ("**Domestic Standards**") provide the shareholder protection standards set out therein ("**Core Shareholder Protection Standards**"). For this purpose, the Exchange may require an overseas issuer to amend its constitutional documents to provide the Core Shareholder Protection Standards.

5. Each overseas issuer is required to comply with the following requirements:

   (i) (a) Its constitutional documents conform with the Core Shareholder Protection Standards, and on the whole, are not inconsistent with the Listing Rules and the laws of the place where the overseas issuer is incorporated or otherwise established; (b) there are no material issues identified in relation to the matters under Part I of Form M120 (Information

[1] The Takeovers Executive refers to the Executive Director of the Corporate Finance Division or any delegate of the Executive Director of SFC.

Required From Overseas Issuers) ("**Form M120**")[2]; and (c) it can comply with other applicable requirements set out in this chapter (collectively the "**Shareholder Protection Requirements**"); and

(ii) The overseas issuer is incorporated in a jurisdiction where securities of companies incorporated therein is eligible for admission into CCASS for trading on the Exchange (the "**Admission Requirement**").

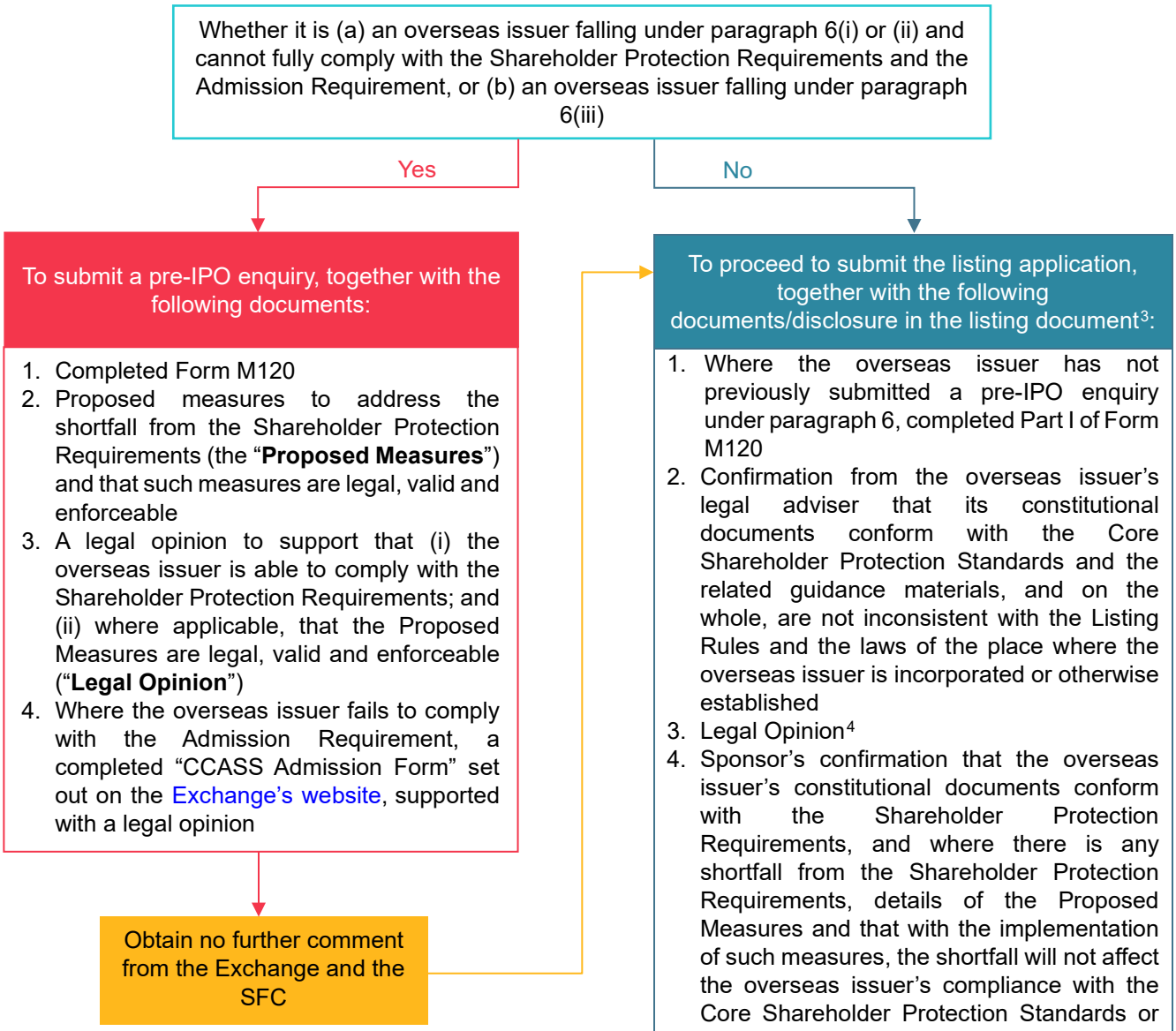
6. Prior to filing a listing application, an overseas issuer and sponsor should check its compliance with the Shareholder Protection Requirements and the Admission Requirement and assess whether a pre-IPO enquiry is required:

	(i) Overseas Issuer Incorporated in Bermuda or Cayman Islands	(ii) Overseas Issuers incorporated in a jurisdiction listed on the "List of Overseas Jurisdictions of Incorporation" published on the Exchange's website	(iii) Overseas Issuers other than paragraph 6(i) and (ii)
To comply with the Shareholder Protection Requirements and identify any material issues	Yes		
To comply with the Admission Requirement	Yes		
Whether a pre-IPO enquiry is required	Generally no, unless the overseas issuer cannot fully comply with the Shareholder Protection Requirements and the Admission Requirement	Depends on whether the overseas issuer can fully comply with the Shareholder Protection Requirements and the Admission Requirement (and where applicable, further guidance on specific jurisdictions published on the Exchange's website)	Yes

7. An overseas issuer that is required to make a pre-IPO enquiry based on the assessment under Paragraph 6 above can only submit its listing application after the Exchange and the SFC have confirmed they have no further comment on the issues.

[2] The Exchange reserves the right to require any overseas issuer to complete and submit the Form M120 where it considers necessary.

8. The diagram below sets out the documentary requirements and when such documents are required to be submitted:



[3] Overseas issuers incorporated in Bermuda or the Cayman Islands are not required to submit items 1, 4 and 6, unless they have previously submitted a pre-IPO enquiry under paragraph 6.

[4] If any legal opinion has been provided at the pre-IPO enquiry stage, the overseas issuer only needs to provide a bring-down legal opinion confirming that the position in the earlier legal opinion is still valid at the time of submitting a listing application. If a legal opinion cannot be obtained, the requirement may be met by the submission of a written confirmation issued by the overseas issuer's legal adviser.

[5] (i) The major differences between Domestic Standards and the Core Shareholder Protection Standards and details of the Proposed Measures; and (ii) the risk that the extent to which Hong Kong courts may be used as an avenue for aggrieved shareholders of non-Hong Kong issuers is subject to certain limitations concerning, for example, enforcement of a Hong Kong judgment against the overseas assets, operations and/or directors of a non-Hong Kong issuer listed on the Exchange and enforcement of an overseas judgment in Hong Kong courts.

9. Listed overseas issuers should monitor their on-going compliance with the Core Shareholder Protection Standards. They must, at the earliest opportunity, inform the Exchange of any material changes in the overseas laws, rules and market practices that would, or may, adversely affect their compliance with the Core Shareholder Protection Standards and other Listing Rules. Where applicable, the Exchange will publish guidance on the relevant jurisdictions[6].

10. With regard to matters not covered by any Core Shareholder Protection Standard or Listing Rules, reliance will be placed on a combination of the overseas laws and regulations to which the overseas issuers are subject and their constitutional documents.

11. Overseas issuers are reminded that they are required under the Listing Rules to ensure all information provided to the Exchange must be accurate and complete in all material respects. They should notify the Exchange of any material matters that may assist the Exchange's consideration of its listing application. The Exchange reserves the right to reject an overseas issuer on suitability grounds where the issuer fails to address any material issue.[7]

12. It is the responsibility of each overseas issuer to exercise reasonable judgment (after seeking professional advice where necessary) as to what falls within the scope of the requirement under paragraph 11 and how material issues associated with the applicable laws and regulations or the overseas issuer's constitutional documents should be addressed. We will determine, on a case-by-case basis, whether an overseas issuer has satisfactorily addressed such matters to ensure a sufficient level of investor protection.

Eligibility of Securities and Admission of Securities into CCASS

13. HKSCC is a recognised clearing house under the SFO. It operates the CCASS which provides deposit, clearance and settlement services to participants of CCASS subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time.

14. All listing applicants must make arrangements with HKSCC to ensure their securities are accepted as eligible for deposit, clearance and settlement in CCASS in accordance with the General Rules of HKSCC[8]. See paragraph 8 above for documentary requirements and the Exchange's website for further information on admission of securities into CCASS.

15. An overseas issuer is encouraged to notify the Exchange at an early stage of the nature of the securities it plans to issue and list, particularly as to:

(i) The form of its securities:	(a) Physical scrip; or (b) Scripless/book entry;
(ii) Where physical scrip is issued, whether:	(a) It will be in definitive or global form; and (b) The certificate will be in registered or bearer form;

[6] Prior to 2021, the Exchange had published country guides on various jurisdictions to provide specific guidance for overseas issuers incorporated in those jurisdictions on the relevant comparison between the Domestic Standards and the then applicable shareholder protection standards, as well as the Exchange's expectations, practices, procedures and the criteria it considers when applying the Listing Rules to overseas issuers incorporated in such jurisdictions. From 2021, guidance may be issued on a case-by-case basis if there are novel issues relating to the listing of securities (including securities of companies incorporated in a jurisdiction not covered by any guidance materials).

[7] See MB Rule 9.03(3A) and paragraph (b) of MB Appendix E1; GEM Rule 12.09(3A) and paragraph (b) of GEM Appendix E1.

[8] MB Rule 8.13A; GEM Rule 11.29.

(iii) Where securities are to be issued in scripless form	The applicant must inform the Exchange of the holding structure of the securities with details of: (a) How Hong Kong investors (through HKSCCN) will hold the securities; (b) The financial intermediaries or depositories holding the securities on behalf of Hong Kong investors, in particular their roles and responsibilities under the relevant overseas jurisdiction's rules and regulations; and (c) Who will be recognised as the legal owners of the securities in the applicant's place of incorporation[9];
(iv) How will its Hong Kong branch register of members be maintained and when the register will be opened for inspection by members[10];	
(v) If securities are in physical scrip, what are the procedures to replace lost certificates and whether there will be any restrictions on holding or transfer of the new certificates; and	
(vi) Whether there will be any restrictions on Hong Kong investors' right to attend the applicant's general meetings to vote and/or to appoint proxies.	

Cross-border Clearing and Settlement

16. The Hong Kong securities market adopts a T+2 settlement period in the post-IPO market. This means that executed trades are settled in CCASS two business days after the trade day.

17. Dual-primary or secondary listed companies normally have their principal share registers in their overseas markets and a branch register in Hong Kong. To ensure liquidity in the Hong Kong registered shares, dual-primary or secondary listed companies must ensure there are a sufficient number of registered shares on their Hong Kong share registers.

18. A dual-primary or secondary listed company that does not conduct a public offering is expected to transfer a sufficient number of shares to its Hong Kong share register from its overseas share register before listing. The estimate of "sufficient number of shares" should be based on the historical trading statistics of the issuer's securities in its overseas market and the expected increase in trading upon listing in Hong Kong. This can be arranged by the appointed share registrars cancelling and re-issuing share certificates[11] in the issuer's respective markets.

19. An overseas issuer that has a listing on the Exchange and another exchange must adopt precautionary measures to mitigate price volatility of its shares upon listing and the demand/supply imbalances between its overseas market and Hong Kong to ensure sufficient liquidity. The precautionary measures must take into account the issuer's shareholding structure and availability of arbitrage opportunities between Hong Kong and the other market where it is listed. Overseas issuers may refer to **Chapter 4.12** on some precautionary measures for overseas issuers listed in Hong Kong by way of introduction.

[9] The need for these notifications will be reviewed upon the implementation of an uncertificated securities market in Hong Kong. The consultation conclusions for this regime was published on 8 April 2020.

[10] The overseas issuer must also inform members of the conditions for inspection.

[11] Unless where the securities are issued in scripless form.

HDRs

20. HDRs can be held by Hong Kong investors in substantially the same way as shares. They are issued by a financial institution acting as a depositary and represent a particular ratio to an applicant's shares.

21. See (i) information on the HDR Framework section of the Exchange's website; and (ii) **Chapter 5.1** for further details on HDRs.

Alternative Procedures for U.S. "Domestic Issuers"

22. "Domestic issuers" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933 who wish to offer their equity securities ("**Regulation S Securities**") in "offshore transactions" within the meaning of, and in reliance on the safe harbor provided by, Regulation S must fulfil the requirements of that regulation (the "**Regulation S Category 3 Requirements**").

23. Given the manner in which securities are traded and settled on the Exchange, it is not feasible for such "domestic issuers" and their underwriters to comply strictly with certain of the Regulation S Category 3 Requirements in connection with a listing of Regulation S Securities on the Exchange. Accordingly, the Exchange has formulated certain alternative procedures tailored to address the underlying policy concerns. See the Exchange's website for further details.

Stock Name Identification

24. To enable investors to identify the following types of listed overseas issuers, such overseas issuers that are listed on the Exchange are required to clearly label their stock short names with appropriate suffixes. The specified stock short names/codes for such overseas issuers are as follows:

Suffix "DR" and a stock code between 6200-6399	Listed HDRs.
Suffix "RS" and a stock code between 6300-6399	Incorporated in the U.S. with listed securities/HDRs that are restricted securities under U.S. federal securities laws.
Suffix "S"	Secondary listing in Hong Kong.
Suffix "TP"	Secondary listed issuer in Hong Kong that voluntarily converts or delists it shares or depositary receipts from the overseas exchange on which it is primary listed but cannot comply fully with the applicable Listing Rules immediately upon the change of its listing status and has applied for a grace period as time-relief waiver.

Company Information Sheet

25. Company Information Sheets must be prepared by (i) all secondary listed issuers (see MB Rule 19C.24); and (ii) any other primary listed or dual-primary listed overseas issuers (including issuers incorporated in Bermuda and Cayman Islands) that meet any of the criteria set out in MB Rule 19.60 (GEM Rule 24.27).

26. The Exchange may also at its own discretion require a primary listed or dual-primary listed overseas issuer to publish a Company Information Sheet where the Exchange believes the publication of a Company Information Sheet would be informative to investors (for example, to provide them with information on overseas laws and regulations to which the issuer is subject and which may be unfamiliar to investors in Hong Kong). The issuers and their advisers should determine the materiality of information to be included in the Company Information Sheet. Issuers are encouraged to consult the Exchange if they are uncertain about the requirements.

27. A listed overseas issuer required to issue a Company Information Sheet as stated above shall publish the Company Information Sheet within 3 months from the time of the Exchange's request.

Financial Reporting Standards, Auditing Standards and Taxation

Financial Reporting Standards

28. The Listing Rules state that the annual financial statements[12] and the accountants' reports of overseas issuers must be prepared and drawn up in conformity with financial reporting standards acceptable to the Exchange, which will normally be HKFRS or IFRS. However, the Exchange may allow a report to be drawn up otherwise than in conformity with HKFRS and IFRS[13].

29. The suitability of a body of alternative financial reporting standards depends on whether there is any significant difference between the foreign financial reporting standards and IFRS, and whether there is any concrete proposal to converge or substantially converge the foreign financial reporting standards with IFRS.

30. On this basis, the Exchange has accepted that the financial statements and accountants' reports of overseas issuers can be prepared in conformity with the financial reporting standards set out in the table below subject to the prescribed scope therein:

Standard	Prescribed Scope
EU-IFRS	For issuers incorporated in a member state of the European Union.
U.S. GAAP	For issuers with, or seeking, a dual-primary or secondary listing in the U.S. and on the Exchange.
Australian Accounting Standards	Only issuers with, or seeking, a primary listing in the same jurisdiction as the standard setter that have, or are seeking, a dual primary listing or secondary listing on the Exchange.
Generally Accepted Accounting Principles of Canada	

[12] A listed issuer must also prepare its interim report in accordance with the same accounting standards that it adopted in the preparation of its most recent published annual financial statements (paragraph 38 of MB Appendix D2 and note 5 to GEM Rule 18.55).

[13] Primary Listing: MB Rules 19.13 and 19.14 and GEM Rules 7.12 and 7.14 (accountants' reports) and MB Rule 19.25A and GEM Rule 24.18A (annual financial statements). Secondary Listing: MB Rules 19C.10D (accountants' reports) and 19C.23 (annual financial statements).

Standard	Prescribed Scope
Accounting Principles Generally Accepted in Japan issued by the Accounting Standards Board of Japan	
Singapore Financial Reporting Standards	
UK Adopted International Accounting Standards	

31. An overseas issuer adopting a body of financial reporting standards other than HKFRS or IFRS for the preparation of its financial statements must include a reconciliation statement setting out the financial effect of any material differences between those financial statements and financial statements prepared using HKFRS or IFRS in its accountants' reports and annual/interim reports[14]. See **Chapter 3.11** for further details on the preparation of the reconciliation statement and the waiver requirement[15].

The Use of U.S. GAAP for Existing Secondary Listed Issuers

32. Existing secondary listed issuers listed in the U.S. are allowed to use U.S. GAAP[16] will be able to continue to do so, but will be required to include a reconciliation statement in their annual financial statements starting from the first full financial year commencing on or after 1 January 2022 and in all subsequent financial statements (including interim financial statements[17]).

Auditing Standards

33. The Listing Rules state that an accountants' report and annual financial statements of an overseas issuer must be audited to a standard comparable to that required by HKICPA or the IAASB[18].

34. The Exchange is satisfied that the following seven sets of alternative standards are comparable to those required by HKICPA or the IAASB, and allows them to be used in the auditing of overseas issuers' financial statements:

    (i) Australian Auditing Standards;

    (ii) The Generally Accepted Auditing Standards of Canada;

    (iii) Professional auditing standards applicable in France in accordance with the French Commercial Code;

    (iv) Italian Auditing Standards;

[14] Primary Listing: MB Rule 19.14 and GEM Rule 7.14 (accountants' reports) and MB Rule 19.25A and GEM Rule 24.18A (annual/interim financial statements). Secondary Listing: MB Rules 19C.10D (accountants' reports) and 19C.23 (annual/interim financial statements).

[15] For automatic waivers and common waivers, please refer to MB Rule 19.58 (GEM Rule 24.25) (for issuers with, or seeking, a dual primary listing) and MB Rule 19C.11B (for issuers with, or seeking, a secondary listing) for details.

[16] For the avoidance of doubt, overseas issuers with, or seeking, a dual primary listing that prepare their financial statements using U.S. GAAP are required to continue to comply with the requirement to prepare reconciliation statements for the annual and interim financial statements and accountants' report.

[17] A secondary listed issuer listed in the U.S. is not required to prepare a reconciliation statement in respect of its U.S. GAAP quarterly financial statements which are published pursuant to overseas rules and regulations.

[18] Primary Listing: MB Rule 19.12 and GEM Rule 7.17A (accountants' reports) and MB Rule 19.21 and GEM Rule 24.14 (annual financial statements). Secondary Listing: MB Rules 19C.10C (accountants' reports) and 19C.17 (annual financial statements).

(v) Singapore Standards on Auditing;

(vi) International Standards on Auditing (UK); and

(vii) The U.S. Public Company Accounting Oversight Board auditing standards.

35. Overseas issuers seeking to adopt a body of financial reporting standards or auditing standards that is not covered by this chapter should consult the Exchange at the earliest opportunity.

Taxation

36. If withholding tax on distributable entitlements or any other tax is payable by shareholders (e.g. capital gains, inheritance or gift taxes), an overseas issuer must bring this to the Exchange's attention at the earliest possible opportunity prior to listing. The overseas issuer must disclose in its listing document details of the stamp duty and tax payable by shareholders, and whether Hong Kong investors have any tax reporting obligations and related procedures.

Recognition of overseas audit firms under the AFRCO

37. AFRC is Hong Kong's independent regulator of listed entity auditors. All audit firms intending to carry out a PIE Engagement are subject to a system of registration (for Hong Kong audit firms) and recognition (for non-Hong Kong audit firms[19]) as PIE Auditors.

38. Any overseas audit firm is required to be recognised by the AFRC before the overseas audit firm can (i) undertake (i.e. accept an appointment to carry out) any PIE Engagement; and (ii) carry out any PIE Engagement for an overseas issuer. Under the AFRCO, the Exchange needs to issue a statement of no objection ("**SNO**") before the AFRC considers an application of the overseas audit firm to be recognised as a Recognised PIE Auditor. The overseas audit firm must not accept an appointment for carrying out any PIE Engagement for an overseas issuer unless the application for recognition has been granted by the AFRC.

39. The overseas issuers are reminded that they should plan their applications ahead[20] and allow sufficient time to seek the SNO and obtain the AFRC's approval for recognition of a Recognised PIE Auditor. For further details on the recognition of overseas audit firms, please refer to the AFRC's website.

40. **Annex B.2** sets out the FAQs for this chapter.

[19] Recognition of overseas audit firms does not apply to audit firms located in Mainland China. Under the AFRCO, the endorsed Mainland audit firms (for PRC issuers only) will be recognised as PIE Auditors without a recognition application being made to the AFRC.

[20] It is the responsibility of the overseas issuer to submit the application for appointing an overseas audit firm for the PIE Engagement, together with a SNO issued by the Exchange. The AFRC considers the application of an overseas audit firm on a case-by-case basis.

2.2 COMPANIES WITH WEIGHTED VOTING RIGHTS STRUCTURES

1. This chapter provides guidance to an applicant on the factors that the Exchange will take into account when considering whether an applicant is suitable for listing with a weighted voting rights ("**WVR**") structure under MB Chapter 8A.

2. The concept of proportionality between the voting power and equity interest of shareholders, commonly known as the "one-share, one-vote" principle, is an important aspect of investor protection as it helps align controlling shareholders' interests with those of other shareholders and makes it possible for incumbent management to be removed, if they underperform, by those with the greatest equity interest in an issuer.

3. The Exchange believes that the "one-share, one vote" principle continues to be the optimum method of empowering shareholders and aligning their interests in a company. Consequently, the Exchange will exercise its discretion to find an applicant suitable to list with a WVR structure sparingly. Demonstration of the characteristics in this chapter may not of itself satisfy the Exchange of an applicant's suitability to list with a WVR structure. The Exchange retains discretion to reject an application for listing with a WVR structure even if the applicant meets the requirements in this chapter.

Definitions

- **Grandfathered Greater China Issuer** means a Greater China Issuer that was (a) primary listed on a Qualifying Exchange on or before 15 December 2017; or (b) primary listed on a Qualifying Exchange after 15 December 2017, but on or before 30 October 2020 and controlled by corporate WVR beneficiaries as at 30 October 2020.
- **Greater China Issuer** means a Qualifying Issuer with its centre of gravity in Greater China.
- **Non-Greater China Issuer** means a Qualifying Issuer that is not a Greater China Issuer.
- **Qualifying Issuer** means an overseas issuer primary listed on a Qualifying Exchange, that is, either The New York Stock Exchange LLC, Nasdaq Stock Market or the Main Market of the London Stock Exchange plc (and belonging to the UK Financial Conduct Authority's "Premium Listing" segment).

Suitability Guidance

4. An applicant, including a Grandfathered Greater China Issuer or a Non-Greater China Issuer, must demonstrate that, in addition to the other requirements for listing under MB Rules, it is an innovative company with reference to the following (collectively, the "**Innovative Company Requirements**"):

Innovative	(i) The Exchange considers an innovative company for the purpose of the Listing Rules would normally be expected to possess more than one of the following characteristics: (a) Its success is demonstrated to be attributable to the application, to the company's core business, of (1) new technologies; (2) innovations; and/or (3) a new business model, which also serves to

		differentiate the company from existing players. An applicant should elaborate on how its operations differ from conventional methods of operating a business in its industry which sets it apart from its peers. If the peers are employing similar technology/business model, the Exchange will consider whether the applicant is the "first mover" in the industry by reference to the timeline of the implementation of its technology, innovation and/or business model as compared to its closest peers; (b) R&D is a significant contributor of its expected value and constitutes a major activity and expense. An applicant should disclose the amount of its R&D expenses during the track record period (both as a figure and as a percentage of total revenue/expenses). In addition, an applicant should explain how the R&D contributes value to the applicant. The Exchange will examine whether the R&D expenses are capitalised as intangible assets in the accounts of the applicant as an indicator of the value generated through the R&D activities. Where a significant portion of the R&D expenses is not capitalised, the applicant should provide the reasons therefor; (c) Its success is demonstrated to be attributable to its unique features or IPs. An applicant should provide detailed explanation on how its IPs enabled it to achieve business success; and/or (d) It has an outsized market capitalisation/intangible asset value relative to its tangible asset value.

5. Generally, a Grandfathered Greater China Issuer or a Non-Greater China Issuer with a WVR structure that meets the conditions set out in Rule 8A.46 would be considered suitable for listing with a WVR structure as a dual primary listed issuer under MB Chapter 19 or a secondary listed issuer under MB Chapter 19C if it can (i) satisfy the Innovative Company Requirements; and (ii) meet the general suitability requirement in MB Rules 8.04 and 19C.02 (where applicable).

6. An applicant (other than a Grandfathered Greater China Issuer or a Non-Greater China Issuer), in addition to the Innovative Company Requirements, must demonstrate that it meets all the characteristics below for the purpose of demonstrating that it is suitable for listing with a WVR structure under MB Chapter 8A.

Success of the company		(i) The applicant must demonstrate a track record of high business growth, as can be objectively measured by operational metrics such as business operations, users, customers, unit sales, revenue, profits and/or market value (as appropriate) and its high growth trajectory is expected to continue.
Contribution of WVR beneficiary		(i) Each WVR beneficiary must have been materially responsible for the growth of the business by way of his skills, knowledge and/or strategic direction in circumstances where the value of the company is largely attributable or attached to intangible human capital[1]. The WVR beneficiaries simply being the directors of the applicant by itself will not be sufficient.

[1] In particular, the applicant should clearly disclose (i) the role of each proposed WVR beneficiary; and (ii) how the knowledge and skills of each proposed WVR beneficiary contributed to the business growth of the applicant. See also Company E in **Annex A.10**.

Role of WVR beneficiary		(i) Each WVR beneficiary must be an individual who has an active executive role within the business, and has contributed to a material extent to the ongoing growth of the business; and (ii) Each WVR beneficiary must be a director of the applicant at the time of listing.
External validation[2]		(i) The applicant must have previously received meaningful third party investment (being more than just a token investment) from at least one sophisticated investor[3] (which must remain at IPO). (ii) Such investors will be required to retain an aggregate 50% of their investment at the time of listing for a period of at least six months post-IPO (subject to exceptions for de minimis investments by specific investors provided that the main investors are in compliance). (iii) The Exchange would not normally require an applicant to demonstrate that it has received meaningful third party investment if the applicant is a spin-off from a parent company[4].

7. The Exchange reserves the right to reject an applicant on suitability grounds if its WVR structure is an extreme case of non-conformance with governance norms (e.g. if the ordinary shares would carry no voting rights at all).

8. Applicants should note that the factors set out in this chapter are neither exhaustive nor binding and the Exchange will take into account all relevant circumstances in its assessment of the applicant.

Biotech Company[5] and Specialist Technology Company[6]

9. The listing regimes under MB Chapters 8A, 18A and 18C all target emerging and innovative applicants with similar needs. The additional requirements that apply to MB Chapters 18A and 18C applicants (e.g. R&D and IP requirements) should have been sufficient to demonstrate that eligible applicants possess a degree of "innovation". In view of the foregoing and based on our vetting experience, a MB Chapter 18A or 18C applicant fully meeting the requirements under MB Chapter 18A or 18C respectively, shall be presumed to have satisfied the Innovative Company Requirements and shall qualify as an innovative company for the purpose of MB Chapter 8A.

[2] Where the applicant is a Non-Grandfathered Greater China Issuer seeking a dual primary listing or a secondary listing, references to "IPO" under "External validation" in paragraph 6 refers to the applicant's listing on the Qualifying Exchange provided that there are no substantial change in the WVR structure between the date of the applicant's listing on the Qualifying Exchange and the date of the applicant's listing in Hong Kong save for the adoption of the WVR safeguards under MB Chapter 8A.
For other applicants which have a primary listing elsewhere, they should consult the Exchange at an early stage if there are difficulties in complying with the "External validation" requirement. The Exchange may only consider references to "IPO" herein to mean the applicant's listing on the overseas stock exchange in exceptional circumstances.

[3] The Exchange considers an investor to be sophisticated with reference to factors such as net assets or assets under management, relevant investment experience, and the investor's knowledge and expertise in the relevant field.

[4] For the purpose of assessing the eligibility and suitability of an applicant to list with a WVR structure, a spin-off applicant will be assessed on a stand-alone basis separate from the characteristics and track record of the parent (irrespective of whether the parent is listed on the Exchange or an overseas exchange).

[5] As defined in MB Rule 18A.01.

[6] As defined in MB Rule 18C.01.

10. In addition, MB Chapters 18A and 18C applicants must have previously received meaningful third party investment prior to listing, with such investor remaining at IPO and/or subject to lock-up requirements. This is directly comparable in intent and scope with the external validation requirement (see paragraph 6 above) for an applicant with a WVR structure, and hence can be presumed to have satisfied such requirement, provided that MB Chapter 18A applicants seeking to list with a WVR structure shall comply with the requirement that sophisticated investors must retain an aggregate 50% of their investment at the time of listing for a period of at least six months post-IPO, and MB Chapter 18C applicants seeking to list with a WVR structure have to satisfy the lock-up requirement under MB Rule 18C.14(2).

11. For the avoidance of doubt, a MB Chapter 18A or 18C applicant seeking to list with a WVR structure under MB Chapter 8A shall demonstrate that it meets all the other characteristics set out in paragraph 6 above, namely (i) success of the company; (ii) contribution of WVR beneficiary; and (iii) role of WVR beneficiary, and remain subject to all other applicable requirements under MB Chapter 8A.

What is an innovative company?



12. The Exchange recognises that what is considered "innovative" depends on the state of the industry and market in which an applicant operates, and will change over time as technology, markets and industries develop and change. For example, a new and "innovative" business model may cease to be so if it is adopted by numerous industry players over time.

13. Conversely, a company may develop an "innovative" way of deploying existing technologies that qualifies it for listing with a WVR structure. Accordingly, the fact that a particular company has qualified for listing with a WVR structure does not necessarily mean that another applicant with a similar technology, innovation or business model will also qualify for listing with a WVR structure.

14. The Exchange will review the facts and circumstances of each case to determine if an applicant has demonstrated that it is an innovative company for the purpose of this chapter. To enable the Exchange to make a prompt assessment, an applicant should submit a pre-IPO enquiry and include in its submission all relevant facts with a meaningful and balanced discussion of its core business, technologies and innovations, instead of making selective disclosures focusing only on favourable facts. Doing so will avoid the Exchange's assessment being prolonged because of further information and/or clarification requests.

15. The superficial application of new technology to an otherwise conventional business will not be sufficient to demonstrate the characteristics set out in paragraph 4(i) above. For example, the Exchange may consider that an applicant that operates a retail business with an online sales platform may not be suitable to list with a WVR structure if it does not exhibit other distinctive features or characteristics.

Characteristics of applicants unable to demonstrate WVR suitability

16. Applicants which are unable to demonstrate WVR suitability generally failed to substantiate how they are able to differentiate themselves from existing market players, which is a key element of innovativeness. They generally possess one or more of the following characteristics:

    (i) Inability to demonstrate that its success is attributable to the application, to its core business, of new technologies, innovations, and/or a new business model;

    (ii) R&D not being a significant contributor of its expected value or constitute a major activity and expense;

    (iii) The absence of an outsized market capitalisation relative to its tangible asset value; or

    (iv) The absence of innovative technologies in its IPs or a lack of relevance of such IPs to its core business.

17. **Annex A.10** sets out the relevant facts and circumstances of certain applicants which were determined not to have demonstrated their suitability to list with a WVR structure. A number of these applicants have proceeded to list on the Exchange without a WVR structure.

WVR Applicants subject to Foreign Investment Restrictions

18. In general, there may be relevant laws and regulations which specifically restrict foreign investment (e.g. the PRC Foreign Investment Law) or disallow foreign investors from using any agreements or contractual arrangements to gain control of or operate a foreign restricted business. Companies operating in an industry sector that is subject to foreign ownership restrictions often use contractual arrangements to indirectly control the part of their businesses which are subject to foreign ownership restrictions. See **Chapter 4.1** for the Exchange's approach towards the adoption of contractual arrangements.

Applicants Establishing Control via WVR

19. An applicant with a WVR structure operating in an industry subject to foreign ownership restrictions may have sought to rely on the WVR structure to demonstrate that it is under de facto control of citizens of the relevant country/jurisdiction if the WVR beneficiaries are citizens.

20. If an applicant seeks to demonstrate compliance with the relevant laws and regulations relating to foreign ownership restrictions through WVR after obtaining favourable legal advice and/or regulatory assurance from the relevant government authorities, and the WVR in question will not exist indefinitely (for example, they are personal to the holder and incapable of being transferred, or are subject to sunset), the applicant must clearly explain and disclose the risk that its WVR may fall away and it may not be able to comply with the foreign ownership restrictions as a result.

Contractual Arrangements adopted by Grandfathered Greater China Issuers and Non-Greater China Issuers

21. The Exchange notes that the requirements of Qualifying Exchanges regarding contractual arrangements are not as extensive as the Exchange's requirements and many of the Greater China Issuers listed on Qualifying Exchanges may have adopted contractual arrangements that do not fully comply with the Exchange's requirements. These companies may find it undesirable or impractical to vary their corporate structures to incorporate all aspects of the

Exchange's requirements for contractual arrangements for the sake of a dual primary or secondary listing.

22. For Grandfathered Greater China Issuers and Non-Greater China Issuers to retain their existing contractual arrangements[7] (where there is no substantial change in the contractual arrangements since the issuer's listing on the Qualifying Exchange):

(A) They must comply with the requirements below:



(i) Provide the Exchange with a legal opinion that their existing contractual arrangements comply with the relevant laws, rules and regulations; and

(ii) Comply with the disclosure requirements on contractual arrangements set out in **Chapter 4.1**.

(B) In general, for the purpose of assessing suitability, the Exchange will take into account, among other matters, the factors listed below in considering whether to allow such existing contractual arrangements on a case-by-case basis:



(i) Extent to which their existing contractual arrangements depart from the standard contractual arrangements contemplated under **Chapter 4.1**;

(ii) Materiality of the operations conducted via their contractual arrangements to their financial position and prospects; and

(iii) Reasons for the adoption of the contractual arrangements.

23. Subject to meeting the requirements in paragraph 19(A) and the assessment of suitability set out in paragraph 19(B) above, the Grandfathered Greater China Issuer and the Non-Greater China Issuer are not expected to comply with all the requirements in **Chapter 4.1**.

[7] The purpose is to facilitate the dual primary or secondary listing of such issuers on the Exchange.

2.3 BIOTECH COMPANIES



1. This chapter provides guidance for Biotech Companies [1] seeking a listing on the Exchange pursuant to MB Chapter 18A ("**applicant**") or listed under MB Chapter 18A. This chapter covers: (i) the factors that the Exchange will take into account when considering whether an applicant is eligible and suitable for listing under MB Chapter 18A; (ii) the disclosures to be included in a listing document of a Biotech[1] applicant; (iii) subscription and allocation of shares under the IPO; and (iv) post-listing matters. The examples and factors taken into account in assessing a Biotech Company's suitability for listing in this chapter are by no means exhaustive and they should not be construed as being definitive as the Exchange considers the specific facts and circumstances of each case. See also the "Listing of Biotech Companies" on the Exchange's website for further information.

Conditions for Listing

2. An applicant that does not satisfy any of the financial eligibility requirements under MB Rule 8.05 may apply for listing under MB Chapter 18A[2] if it:

   (i) Can demonstrate that it is both eligible and suitable for listing as a Biotech Company;

   (ii) Has an initial market capitalisation at the time of listing of at least HK$1.5 billion;

   (iii) Has been in operation in its current line of business for at least two financial years prior to listing under substantially the same management[3]; and

   (iv) Has sufficient working capital to cover at least 125% of the group's costs for at least 12 months from the date of publication of its listing document (after taking into account the proceeds of the applicant's initial listing).

Eligibility and Suitability for Listing

3. An applicant can demonstrate that it is both eligible and suitable for listing under MB Chapter 18A if it is a Biotech Company that has:

   (i) Developed at least one Core Product[1] beyond the concept stage;

   (ii) Been primarily engaged in R&D for the purpose of developing the Core Product and has continued such R&D during the 12 months prior to listing;

[1] As defined in MB Rule 18A.01.

[2] For the avoidance of doubt, a biotech company which is able to meet the financial eligibility requirements under MB Rule 8.05 cannot apply to list under MB Chapter 18A.

[3] A Biotech Company applying for listing under MB Chapter 18A with an accountants' report covering two financial years must apply for a certificate of exemption from the relevant disclosure requirements under the Third Schedule of C(WUMP)O.

(iii) As its primary reason for listing to raise funds for R&D to bring its Core Product to commercialisation;

(iv) Ownership of patents relating to the Core Product, including registered patent(s), patent application(s) and other IP rights; and

(v) At least one sophisticated investor that has made a meaningful third party investment into the Company at least six months before the date of the proposed listing (which must remain at IPO).

4. The Exchange will also review, among other things, any change in ownership of the applicant during the 12 months prior to the date of the listing application in assessing the suitability of the applicant for listing.

Requirement (i) – Developed at least one Core Product beyond the concept stage

5. The Exchange would consider a Regulated Product[4] to have been developed beyond the concept stage if it has met the milestones specified below for the relevant Biotech Product[4], including (i) pharmaceuticals (small molecule drugs)[5], (ii) biologics[5] and (iii) medical devices (including diagnostics), as categorised by the Competent Authority[4]. For a Core Product that is a drug, the applicant must also demonstrate that it has a pipeline of potential Biotech Products.

	"Clinical Trial"[6] milestone	**"Regulatory"[7] milestone**
Drug (including pharmaceuticals and biologics)	(i) Completed Phase I clinical trial for a new drug or at least one clinical trial for a drug based on a previously approved product or a biosimilar. *Illustrations* (i) *Combined clinical trials (e.g. Phase I/II)*	(a) Competent Authority has no objection to commencement of Phase II (or later) clinical trials[8]. *Illustrations* (a) *Regulatory assurance from the Competent Authority*

4 As defined in MB Rule 18A.01.

5 In this chapter, pharmaceuticals (small molecule drug) and/or biologics are collectively being referred to and classified under the "Drug" category as they are subject to the same "Clinical Trial" and "Regulatory" milestones requirements.

6 Any reference to a "clinical trial" refers to a clinical trial on human subjects required by the Competent Authority. If the Core Product of an applicant has obtained approval from a Competent Authority to commence a later phase clinical trial on the basis of the results of earlier clinical trials conducted under a non-Competent Authority or another jurisdiction, which were reviewed and accepted by the Competent Authority, such earlier completed clinical trials would also be taken into account. The Exchange will assess this on a case-by-case basis. **Annex A.11** sets out a listing decision on the eligibility of a Core Product with clinical trial conducted under a non-Competent Authority.

7 The Exchange may consider accepting the clinical trials of a Biotech Product that are conducted by other non-Competent Authority on a case-by-case basis with reference to whether (i) such authority can be regarded or authorised as a comparable authority as to the Competent Authorities; (ii) the approval process of that authority in relation to the Biotech Product in question is comparable to the process and expertise of a Competent Authority in terms of assessing the robustness of a Biotech Product; and (iii) there are precedent cases and the basis of other Biotech Products seeking such comparable authority for guidance or reference.

8 Regulatory assurance obtained through a range of communications with the Competent Authority, including interviews, clinical trial design consultations/discussions, materials presented to and/or reviewed by the Competent Authority with respect to the Biotech Product.

	"Clinical Trial"[6] milestone	"Regulatory"[7] milestone
	An applicant is considered to have met the "Clinical Trial" milestone if it has completed one phase of combined clinical trials if the Competent Authority considers that such phase is standalone and equivalent to at least completion of Phase I. (ii) *In-licensed or acquired Core Product* The applicant must have independently completed at least one clinical trial since in-licensing or acquisition of the Core Product[9].	An applicant may satisfy the "Regulatory" milestone by disclosing in the listing document either regulatory assurance obtained from, or material communications with, the Competent Authority showing that there is no objection for the applicant to commence the next phase of clinical trials and there are no exceptions or carve-outs to such "no objection"[10].
Medical Device (including diagnostic devices)	(i) Completed at least one clinical trial for a Class II or above medical device (under the classification criteria of the relevant Competent Authority or Authorised Institution[11]). *Illustrations* (i) *Possible classification downgrade* An applicant that is aware or has become aware, prior to listing, of a possible and imminent downgrade of the risk classification of the medical device to below Class II as a result of proposed or promulgated regulatory changes will not satisfy such milestone.	(a) Competent Authority or Authorised Institution has no objection to commencement of next phase of clinical trials, or sales of the device. *Illustrations* (a) See above guidance – (a) "Regulatory assurance from the Competent Authority". (b) *Medical device regulated under NMPA's "Green Path"* An applicant with a medical device that has had its registration application conditionally accepted under the Green Path by the NMPA is considered to have satisfied such milestone if only procedural and/or administrative matters remain outstanding and no

9 If the applicant has not completed any clinical trials, the Exchange will evaluate why it has not done so and whether substantive R&D and other work/process equivalent to the completion of one clinical trial has been performed.

10 An applicant that has commenced a later phase of clinical trials before completing the previous phase of clinical trials will also need to demonstrate that the Competent Authority is satisfied that the relevant endpoints for the earlier phase of clinical trial have been reached, and the applicant will not be required to modify the design of the earlier phase of clinical trial.

11 An institution, body or committee duly authorised or recognised by, or registered with, a Competent Authority or the European Commission to conduct, assess and supervise clinical trials in the relevant clinical fields. The Exchange may, at its discretion, recognise another institution, body or committee as an Authorised Institution on a case-by-case basis.

	"Clinical Trial"[6] milestone	"Regulatory"[7] milestone
		impediments to registration of the device are expected.[12]

Other Biotech Products

6. A Biotech Product that does not fall under the "Drug (including pharmaceuticals and biologics)" or "Medical Device" categories based on the classification of the Competent Authority will be considered as "Other Biotech Products". This will be assessed on a case-by-case basis with reference to all relevant facts and circumstances, including whether (a) it has been developed beyond the concept stage by reference to the developmental milestones in the table set out in paragraph 5 above; and (b) there is an appropriate framework or objective indicators to enable investors to make an informed investment decision[13]. A determination to accept such a listing application would be a modification that may only be made with the consent of the SFC under MB Rule 2.04.

Requirement (ii) – Primarily engaged in R&D for the purpose of developing the Core Product and continued such R&D during the 12 months prior to listing

7. An applicant may substantiate that it has met this requirement using historical R&D expenses incurred for the Core Product (including the underlying platform/technology). For in-licensed or acquired Core Product, the applicant should have achieved R&D progress independently since the in-licensing or acquisition of the Core Product, which may be demonstrated if the Core Product has (a) progressed from one phase to the next phase of clinical trials[14]; or (b) obtained registration approval from the Competent Authority.

Requirement (iii) – Primary reason for listing is to raise funds for R&D to bring the Core Product to commercialisation

8. The applicant must substantiate the need to raise funds, having regard to, among other things, historical R&D expenses and/or any post-approval R&D or other activities required by the Competent Authority. The listing document should include a breakdown of the IPO proceeds allocated to each indication of the Core Product and other products, with details of the applicant's future development plans (with expected timeline) for such products. A portion of listing proceeds may be allocated to:

For Core Product that is a medical device	(i)	Commercialisation of a Core Product that is a medical device, such as building new or expanding existing manufacturing facilities, establishing sales, marketing and medical teams, and providing relevant education and/or training to healthcare professionals. The applicant should justify such allocation of IPO proceeds with reference to the expected demand

[12] "Green Path" is a regulatory pathway under which the NMPA grants priority review and accelerated approval to selected medical device candidates. An applicant may demonstrate that there is no impediments to registration of the device under "Green Path" if it can prove that no registration application of the same product type/classification admitted to the "Green Path" has been rejected by the NMPA after submission. This will be assessed on a case-by-case basis.

[13] In the absence of any regulatory framework setting out external milestones or an objective framework to assess the development progress, market and clinical relevance of a product, the Exchange will consider, among other things, (i) the number, selection process and diversity of the test sampling population, and data from pre-clinical studies and clinical trials; (ii) timeframe and impediments to commercialisation; (iii) whether the pre-clinical and clinical results have been published in medical/scientific journals with a high impact factor; and/or (iv) guidance published by Competent Authorities on aspects of a comparable framework and/or objective indicators of "Other Biotech Products".

[14] The applicant must have conducted all R&D for the entire phase of the clinical trial, or where applicable, R&D work from pre-clinical to clinical stage which is required by the Competent Authority.

		for its Core Product and product candidates, and the utilisation rate of existing manufacturing facilities.
For Core Product with further development	(i)	Further development of a Core Product (whether or not it has been commercialised), such as (a) expanding its indications (provided that it will be regulated as the same product) and/or launching it in another regulated market; and (b) conducting further clinical trials or clinical evaluation required by the Competent Authority and/or the relevant authority of other regulated market(s).
For out-licensed or jointly developed Core Product	(i)	Further development of an out-licensed or a jointly developed Core Product, provided that the applicant can demonstrate that it has effective control over the R&D, manufacturing and commercialisation of the Core Product in the intended/targeted indications and jurisdictions where it has retained such rights.

Requirement (iv) – Registered patent(s), patent application(s) and/or IP in relation to its Core Product

9. The applicant must demonstrate that it has ownership of IP rights relating to the Core Product, and disclose in its listing document details of any patents granted and applied for in relation to the Core Product[15]. For in/out-licensed or jointly developed Core Product, the applicant must demonstrate that it owns and will own all IP independently developed by the applicant.

Requirement (v) – At least one sophisticated investor has made a meaningful investment at least six months before the date of the proposed listing and such investor will remain at IPO

10. This requirement is intended to demonstrate that a reasonable degree of market acceptance[16] exists for the applicant's R&D and Biotech Product[17].

Sophisticated investor	(i)	Assessed on a case-by-case basis with reference to the investor's net assets/assets under management, and relevant investment experience, knowledge and expertise in the Biotech field. The following investors are generally considered as a sophisticated investor: (a) A fund dedicated to healthcare or Biotech, or that has a division/department that specialises/focuses on investments in the biopharmaceutical sector; (b) A major pharmaceutical/healthcare company, or a venture capital fund of a major pharmaceutical/healthcare company; and

[15] An applicant may not be required to do so if it can demonstrate to the Exchange that such disclosure involves highly sensitive commercial information. In such case, the applicant must disclose in the listing document the reasons for not disclosing details of its patents.

[16] Reasonable degree of market acceptance should be validated by a meaningful third-party investment. The controlling shareholder(s) or single largest shareholder of an applicant should normally not be regarded as a sophisticated investor.

[17] An applicant that is a spin-off from a parent company may not be required to comply with this requirement if it can demonstrate to the Exchange's satisfaction that there is such market acceptance (e.g. in the form of collaboration with other established R&D companies).

		(c) An investor, investment fund or financial institution with minimum assets under management of HK$1 billion.
Meaningful investment		(i) Assessed on a case-by-case basis with reference to, among other things, the nature, amount, size and timing of the investment, and the relevant investment experience, background and qualification of the investor. As an indicative benchmark, the following amounts will generally be considered as a "meaningful investment":

Market capitalisation of applicant (HK$)	1.5 to 3 billion	> 3 to 8 billion	> 8 billion
Investment amount (% of issued share capital of applicant at time of listing)	not less than 5%	not less than 3%	not less than 1%

Guidance on Disclosure

General principles

11. Given the business nature of a Biotech Company, there is uncertainty over whether it will be able to successfully commercialise its product candidates in the future. With significant retail participation, it is especially important that a Biotech Company considers the following, in addition to the general and overriding principles and disclosure guidance applicable to all applicants set out in **Chapter 3**, when drafting the listing document:

Present fair, balanced and accurate information to potential investors	(i) Clear and precise disclosures on, among other things, the applicant's business models and products should be provided without compromising the scientific accuracy. (ii) Specify in the "Definitions" section that the meaning of the Core Product is as ascribed to it in MB Chapter 18A and is the product for the purpose of satisfying the eligibility requirements under MB Chapter 18A and this chapter. (iii) Specify the full term of any abbreviation when it first appears in the "Summary" section, and explain it using plain language in the "Summary" section, with cross-references to the "Business" section for highly technical content or detailed description of science, such as the mechanism of action (MOA) and clinical data of a product. *Examples in plain language drafting in the "Summary" section* ✓ *The Core Product is a small molecule drug for the treatment of breast cancer.* ✓ *The Core Product is a blood-based diagnostic kit for cancer screening and detection.* × *The Core Product is a recombinant anti-PD-L1 humanised BsAb, being developed for the treatment of mCRC.*

	× *The Core Product is a proprietary, non-invasive, multiple target RNA test kit and the first and only molecular cancer screening and detection test in the world.* (iv) Disclosures that were considered misleading should be avoided, including where the applicant described itself as: (a) a "leader" of a particular market (e.g. oncology) even though it targets a very small subset of such market, or is one of the many treatments targeting the same indication; and (b) having "robust execution capabilities", "a proven track record" or "strong manufacturing facilities" even though none of its product candidates have been commercialised.
Avoid marketing/ emotional language and generic disclosures	(i) Disclosures should be specific and substantiated. Avoid the following descriptions for (a) the applicant's products: "novel", "top-notch", "leading", "blockbuster potentials", "state-of-the-art technologies", "first-in-class" and "unmet needs"; (b) clinical trials: "late-stage" and "near late-stage"; and (c) the background of pre-IPO investors: "completed a number of landmark investments" and "invested in high-quality middle-market companies". (ii) Statements that the applicant's products are likely to be more competitive, better or superior[18] should be scientifically specific (e.g. in terms of effectiveness and/or ease of administration of the product). (iii) Overly emotional language or aggrandised marketing statements should be avoided, e.g. "the goal is to give life a second chance".
Use diagrams, flowcharts and tables where appropriate	(i) Diagrams and/or flowcharts should be used to explain complex and technical matters, such as MOA of the Core Product and key products. (ii) Tables should be used to present extensive information (e.g. clinical data of the applicant's products, information of competing or peer products, material development milestones, pre-IPO investments, and IP rights).
Avoid excessive reliance on the industry consultant	(i) Directors should provide their views on scientific and technical aspects of the applicant's products and product candidates, and avoid excessive reliance on its advisers or consultants, e.g. the industry consultant.

Section-specific disclosures

"Summary" section

12. A Biotech Company should include the following information preferably in the following order:

Disclaimer	(i) A disclaimer that (a) the applicant is a biotechnology company seeking to list on the Main Board of the Exchange under MB Chapter 18A on the basis that it is unable to meet the requirements under MB Rule 8.05; (b) the Core Product(s) is/are the product(s) for the purpose of

[18] For example, a product that is "first-in-class" may not necessarily be better or superior as it may simply mean that it has a new MOA, but not with proven and better safety or efficacy profile than its peer products with the same indication.

	satisfying the eligibility requirements under MB Chapter 18A and this chapter, and (where applicable) is/are in the early stages of clinical development; and (c) the applicant may continue to incur substantial costs and expenses in relation to R&D activities for the Core Product(s), and the Core Product(s) may not be successfully developed or marketed.
Introduction	(i) Introductory paragraph with at least the following information: (a) the year in which the applicant was established and its areas of medical focus; (b) number of Core Products and product candidates in the applicant's pipeline; and (c) brief description of the Core Products, including the intended indication(s) and targeted stage of disease. *Examples* ✓ *We are a biopharmaceutical company engaged in the R&D, manufacturing and commercialisation of drugs for treating cancer since our incorporation in 2018. We have self-developed one Core Product (with the treatment of breast cancer as its leading indication) and in-licensed two products from third parties (namely Collaborator A and Collaborator B). We are also developing ten clinical stage drug candidates in the pipeline.* × *We are a fully integrated, innovative biopharmaceutical company committed to the R&D, manufacturing and commercialisation of novel drugs to address significant unmet medical needs in China and globally. Empowered by our fully fledged innovation capabilities and a powerful and productive cross-functional management system, we are dedicated to the development of differentiated treatments to improve the existing standard of care. Notably, we are a pioneer and leading developer of immune drugs worldwide, with over a decade of accumulated experience in immune drugs development. Our collaboration with Collaborator A to develop up to ten pre-clinical drugs is the largest biopharmaceutical licensing deal in terms of deal value to date secured by a China-based company according to our Industry Consultant.* (ii) An applicant that is a spin-off from a listed parent company should disclose such fact.
Pipeline chart	(i) Pipeline chart that is disclosed upfront and categorised by product (rather than intended indications), including, for each product, (a) whether it is internally-developed, acquired or in-licensed; and (b) dates of key regulatory milestones achieved or to be achieved in each jurisdiction that the product is being developed. Avoid presenting favourable possibilities as certain or as more probable than is likely to be the case. (ii) For drugs, type of therapy (i.e. monotherapy or combination therapy) and intended applications (e.g. third-line treatment for a given cancer), and for medical devices, its risk classification.

Concise overview of the applicant and its Biotech Products	(i) A description of each Core Product and key product, including (a) regulatory approvals required and/or obtained in each jurisdiction that the product is being developed, and the status of clinical trials (with start/end dates); (b) addressable market and competitive landscape (see guidance in paragraph 14 below); (c) competitive advantages and/or limitations of the applicant's product (e.g. higher efficacy or ease of administration); and (d) if applicable, plans to out-license the product. (ii) R&D capabilities (e.g. composition of R&D team, total R&D expenses for all products and for the Core Product, respectively and, if any, outsourced R&D), IP owned by the applicant (e.g. granted/pending patents), manufacturing capabilities (which should correspond to its products development stage and not be overstated), and commercialisation strategy (see guidance in paragraph 16 below). (iii) Summary of key risks of the applicant and its products (as disclosed in the "Risk Factors" section). (iv) Valuation of the applicant (including total amount and number of rounds of financing from pre-IPO investors, and the identity of the sophisticated investor and its shareholding in the applicant). (v) Cash burn rate (see guidance in paragraph 17 below) and key financial indicators relevant to the applicant's stage of development. (vi) Recent developments.

"Risk Factors" section

13. A Biotech Company should include the following risks specific to its products, the markets in which the applicant plans to commercialise its products, operations and industry, and arranged the risk factors in the following order:

Risks relating to the applicant's products and the markets in which it plans to commercialise its products	(i) Higher risks faced by an applicant with pipeline products in pre-clinical development stage. (ii) Difficulties in recruiting suitable patients for clinical trials for rare disease indications. (iii) Details of major adverse events, including their actual and potential impact on the applicant (e.g. legal proceedings related to IP of the applicant's products, negative publicity on the applicant's products, clinical holds [19] on similar products, and unfavourable guidelines, recommendations or study results). (iv) High levels of competition in the market of the applicant's product.

[19] A clinical hold is an order issued by a Competent Authority to the trial sponsor to delay a proposed clinical trial or to suspend an ongoing trial.

Risks relating to the applicant's operations and industry	(i) Failure to successfully develop or obtain regulatory approval for the applicant's pipeline products. (ii) Infringement and/or expiry of IP rights, including challenges by third parties over in-licensed IP which may affect the applicant's use of such IP, or material restrictions on the applicant's right to develop and commercialise in/out-licensed products (including termination events). (iii) Product liability in respect of jointly developed products or products supplied by third parties. (iv) Acceptability of clinical trial results across different jurisdictions. (v) Inclusion of the applicant's products in a reimbursement scheme may significantly drive down its prices.

"Industry Overview" section

14. A Biotech Company should include the following information:

Addressable market	(i) Drivers and barriers to entry in the industry and markets targeted by the applicant. (ii) For each of the intended indications of the Core Products and key products[20]: (a) Standard treatment protocol for the disease, including details of clinical guideline recommendations and the safety and efficacy of each treatment option. (b) In each of the applicant's targeted markets, the size and growth rate of the addressable market, and the prevalence, incidence rate and patient diagnostic rate of the disease. (c) Target patient population for each intended application (e.g. third-line treatment for a given cancer), including recurrence rate of the disease. (iii) Key underlying quantitative and qualitative assumptions and bases used to derive the estimated addressable market size, the reasonableness of which should be reviewed by the sponsors.
Competitive landscape	(i) Products and product candidates that compete or may potentially compete with each of the Core Products and key products in the targeted therapeutic areas, including: (a) Name and approval date/development status, expiration dates of key IP rights, route of administration, type of technology used,

[20] For example, an applicant with a Core Product that is a third-line treatment for a disease should disclose the overall market for the disease, and then the market for third-line treatment for the disease to reflect the limited pool of patients that the product targets.

	intended/targeted indications and intended applications (e.g. third-line treatment for a given cancer), and safety and efficacy. (b) If commercialised, annual treatment cost, market share (including similar products launched in other jurisdictions and other factors that affect pricing in the target market), and whether it is included in any reimbursement scheme (if so, details such as the percentage of reimbursement).

"History and Development" section

15. A Biotech Company should include the following information:

Achievement of key milestones	(i) Dates of key development milestones relating to the Core Product (e.g. commencement/completion of clinical trials and registrational approval).
Sophisticated investors	(i) Background of the investor (including, where applicable, its ultimate beneficial owner). (ii) Assets under management or net assets, track record in the relevant biotech or healthcare industries, and investment expertise of the general partners or ultimate beneficial owner (where applicable).
Valuation	(i) Explain the reasons for any material changes in valuation between each round of financing by reference to key developments of products, achievement of business/product milestones and material regulatory/policy changes that are relevant to the applicant.

"Business" section

16. A Biotech Company should include the following information:

Business model	(i) Whether the applicant's products/product candidates are internally-developed, acquired, in/out-licensed, or a combination of these.
Details of each Core Product and key product	(i) Description of the product, including its MOA[21] and whether the product was internally developed, in-licensed or acquired. (ii) Timeline of regulatory milestones leading up to the commercialisation of the product (e.g. dates of IND filing, commencement/completion of clinical trials and registration filing and details of additional R&D to be conducted[22]), and, if applicable, key differences between the primary and other targeted markets.

[21] For a drug product, modality (including whether it is a "me too" or "me-better" drug) and type of therapy (i.e. monotherapy or combination therapy). For an orphan drug or innovative drug, basis for qualification of drug candidate under a particular regulatory pathway and exemptions granted by the relevant Competent Authority.

[22] The applicant should also disclose whether or not such R&D is required by the Competent Authority.

	(iii) Relevant and up-to-date preclinical/clinical data and explanations for any delay, suspension or premature conclusion of clinical trials (such as due to adverse events), including: (a) Clinical trial design, such as (1) whether the trials are randomised, controlled or double-blinded, (2) whether it is the current standard of care or recommended modality according to national and international guidelines, and (3) the risk of being requested by the Competent Authority to modify the design of such clinical trial and the potential impact on the registration timeline. (b) The sponsor and the results of the clinical trial, such as (1) primary and secondary endpoints, (2) planned and actual number of patients enrolled, (3) inclusion and exclusion criteria, and (4) qualitative and quantitative description on the occurrence, nature and severity of adverse events (AE), serious adverse events (SAE), and treatment emergent adverse events (TEAE). If none, a negative statement in this regard. (iv) Addressable market and the competitive landscape of the intended/targeted indications of the product (see guidance in paragraph 14 above). (v) R&D expenses attributable to the Core Product, which are broken down by development stage (together with an explanation of any material fluctuations during the track record period), and expressed as a percentage of the applicant's total operating expenses (i.e. R&D costs, selling and marketing expenses and administrative expenses).
Technology platforms	(i) Brief description of the technology platform used to discover and develop product candidates and, if any, the key IP rights owned by the applicant in respect of such platform[23].
Material terms of in/out-licensing arrangements	(i) Counterparty (e.g. background, operational scale and independence). (ii) Scope of licence (e.g. indications and geographical restrictions). (iii) Development stage of product at time of in/out-licensing[24], and R&D activities that have been and will be conducted by the applicant after the in/out-licensing (including actual and anticipated R&D expenses and how it will be funded). (iv) Key rights and obligations of the applicant and the licensor (e.g. milestone/royalty payments and their triggering events[25], termination events, dispute resolution mechanism and ownership of IP rights[26]).

[23] Such disclosures should not be more prominent than those relating to the Core Product and key non-Core Products.
[24] Include any adverse information on the scientific validity or safety of the product.
[25] If product is in-licensed, whether any licensing payments will be paid out of IPO proceeds.
[26] The applicant should set out the parties' respective rights to own foreground or self-developed IP (e.g. clinical trial results, improvements).

Collaborative development and research agreements	(i) Collaborative partner (e.g. background, operational scale and independence[27]), collaboration period and schedule. (ii) Key rights and obligations of the parties (e.g. sub-licensing rights, milestones, profit and cost sharing arrangements and ownership of IP rights, termination events and dispute resolution mechanism). (iii) Joint steering committee (e.g. composition of committee, and its roles and responsibilities). (iv) Arrangements for combination therapies (e.g. responsibility for purchases/supplies of drugs, liabilities of each party under the arrangement (particularly, who will bear any product liability arising from a combination drug supplied by third party), ownership of the development and commercialisation rights of the jointly-developed product, and possible side effects of combined treatment).
Commercialisation	(i) Commercialisation strategy, which should be tailored to the development stage of the applicant's products, including: (a) Strategies implemented or to be implemented to achieve market acceptance and adoption (e.g. how to on board doctors and/or become recognised under clinical guidelines). (b) Manufacturing capabilities (e.g. building/expanding manufacturing capacities and obtaining ISO certifications). (c) Expected pricing and affordability of product (e.g. inclusion in any insurance reimbursement schemes or centralised/volume-based procurement and pricing schemes will likely reduce the pricing of the product, and how this would impact the revenue and profitability of the product going forward). (d) Profitability of product (i.e. whether the Company is expected to capture a considerable return from sales of the product). (e) Distributorship model (see **Chapter 4.5** for further guidance), and compliance with local law (e.g. the Two-Invoice System Rules in the PRC). (f) Potential cannibalisation of products with overlapping indications or similar therapeutic areas. (g) For commercialised products, the revenue model and a breakdown of revenue by product/service during the track record period and information on the products sold and background of the customers.

[27] For research institutions or CROs engaged by the applicant, additional information including their calibre and experience, and ownership of sub-licensing rights, as well as the applicant's selection criteria and oversight over them. For a principal investigator ("**PI**") who is in charge of or supervising an applicant's clinical trial and concurrently has additional role(s) in such applicant, additional information and basis including (i) the PI's specific functions and additional role(s) in the applicant, and the terms of compensation, if any; and (ii) whether such compensation to the PI may impair the integrity of the applicant's clinical trial.

R&D capabilities	(i) Existing operations in R&D, and the collective expertise and experience of key management and technical staff, including their identities, qualifications, areas of specialisation and relevant work experience. (ii) Whether all key R&D personnel involved in the development of the Core Product remained employed by the applicant during the track record period and as at the LPD, and if not, the impact of their departure. (iii) If the Core Product is in-licensed, whether (a) the applicant relies on any R&D conducted (or continues to be conducted) by the licensor; and (b) any personnel from the licensor is employed by the applicant.
IP rights	(i) Patents granted and applied for in relation to the Core Product and key products, including the identity of the inventor and owner and the aspects of such products protected by the patents (e.g. whether key technology or product packing). (ii) Whether a freedom-to-operate (FTO) analysis has been conducted (including details of any soon-to-expire patents, and actual breaches of IP rights and its impact on the applicant's operations), and a positive statement by the Directors on whether it has infringed any IP rights of third parties.
ESG	(i) Social risks associated with inappropriate use of products (e.g. non-prescribed use of labelled drugs) and the effects of product pricing on access to healthcare, and internal control policies to mitigate such risks. (ii) Measures to protect patient data and comply with privacy laws and regulations, and to monitor how contracted parties (e.g. CROs, CDMOs) handle, use, store, treat and dispose of hazardous material and waste. (iii) See **Chapter 4.3** for guidance on CG and ESG matters.

"Financial Information" section

17. A Biotech Company should include the following information:

Revenue	(i) Any revenue generated during the track record period should be broken down by (a) Core Product, (b) other products, and (c) other services (e.g. CRO services) provided by the applicant.
Cash burn rate	(i) Cash burn rate (i.e. period of time the applicant can maintain its operations with its existing cash balance and IPO proceeds), which should be based on reasonable assumptions and representative of the applicant's future operations (e.g. changes in R&D and other expenses consistent with the stage of development of its products).

	(ii) When the applicant expects to raise the next round of financing after IPO taking into account the expected IPO proceeds and the cash burn rate.
Breakdown of R&D expenses attributable to the Core Product	(i) R&D expenses attributable to the Core Product and/or the underlying technology, which are broken down by development stage (together with an explanation of any fluctuations during the track record period), and expressed as a percentage of the applicant's total operating expenses (i.e. R&D costs, selling and marketing expenses and administrative expenses).

Subscription and allocation of shares under the IPO

18. A Biotech Company seeking to list under MB Chapter 18A is expected to have significant ongoing funding needs in order to develop its Core Product to commercialisation. As existing investors are likely to have subscribed for shares in the Biotech Company on the basis of their confidence in its prospects, they may wish to be able to continue to participate in future fundraisings (including the IPO) to prevent dilution to their shareholding.

Existing shareholder of a Biotech Company may participate in IPO	(i) An existing shareholder and/or its close associates may, provided that the applicant complies with MB Rules 8.08(1)/19A.13A and 8.08A/19A.13C[28], participate in the IPO of the Biotech Company. An existing shareholder must subscribe for shares in the IPO as a Cornerstone Investor if it holds 10% or more of the shares in the applicant prior to IPO, but may subscribe either as a Cornerstone Investor or placee if it holds less than 10% of the shares in the applicant prior to IPO. The applicant and its sponsors must confirm that no preference in allocation was given to the existing shareholder; and in the case of subscription as Cornerstone Investor, that no preference was given other than the preferential treatment of assured entitlement at the IPO price and the terms are substantially the same as other Cornerstone Investors. (ii) An existing shareholder with a contractual anti-dilution right may exercise such right and subscribe for shares in the IPO in accordance with the existing requirements in **Chapter 4.15**.
Core connected person of the Biotech Company	(i) The applicant must apply for, and the Exchange will ordinarily grant, a related MB Rule 9.09 waiver, if allocations of shares of a Biotech Company will be made to a core connected person.
Clawback mechanism	(i) The Exchange will consider any proposed modification to the minimum public subscription requirement in an IPO under MB Practice Note 18 on a case-by-case basis. The applicant must provide compelling reasons for such modification, as a Biotech Company carries additional potential risks to retail investors.

[28] For the avoidance of doubt, the Existing Shareholders Conditions set out in paragraph 12 of **Chapter 4.15** do not apply to Biotech Companies.

Biotech Company with a WVR Structure

19. The Exchange presumes a MB Chapter 18A applicant fully meeting the requirements under MB Chapter 18A to have satisfied (i) the Innovative Company Requirements and shall qualify as an innovative company for the purpose of MB Chapter 8A; and (ii) the external validation requirement under **Chapter 2.2**. However, such applicant seeking to list with a WVR structure under MB Chapter 8A shall remain subject to all other applicable requirements under **Chapter 2.2** (including the lock-up requirement) and MB Chapter 8A.

Post-listing Matters

20. A Biotech listed issuer is not required to meet the profit test in MB Rule 8.05(1), the market capitalisation/revenue/cash flow test in MB Rule 8.05(2) or the market capitalisation/revenue test in MB Rule 8.05(3) at the time of listing, the application of the revenue ratio and the profit ratio to any proposed transaction that these issuers propose to undertake may not be appropriate.

21. The Exchange may exercise its discretion under MB Rule 14.20 to disregard the revenue ratio and profit ratio for a Biotech listed issuer and consider other relevant indicators of size, including industry specific tests suggested by the issuer, on a case-by-case basis. The listed issuer must provide appropriate alternative tests to the Exchange for consideration.

2.4 SPECIAL PURPOSE ACQUISITION COMPANIES

1. This chapter provides guidance for special purpose acquisition companies ("**SPAC(s)**") with, or seeking, a listing on the Exchange pursuant to MB Chapter 18B.

Suitability of SPAC Promoters

Requirements

2. MB Rule 18B.10 provides that at listing of the SPAC and on an ongoing basis for the lifetime of the SPAC, the Exchange must be satisfied as to the character, experience and integrity of all SPAC Promoters and that each is capable of meeting a standard of competence commensurate with its position. For this purpose, a SPAC must ensure that:

   (i) At listing and on an ongoing basis, at least one of its SPAC Promoters is a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) licence issued by the SFC; and

   (ii) It provides the Exchange with information that the Exchange requests in accordance with this Guide.

3. The Exchange will consider modifying or waiving the licensing requirement under MB Rule 18B.10(1), on a case-by-case basis, if a SPAC Promoter has overseas accreditation issued by a regulatory authority that the Exchange considers to be equivalent to a Type 6 and/or Type 9 licence issued by the SFC. A SPAC seeking such modification or waiver must provide:

   (i) Documentary evidence that the SPAC Promoter has obtained such accreditation; and

   (ii) Details of the initial and ongoing requirements that the SPAC Promoter must fulfil for the purpose of this overseas accreditation and a comparison against the corresponding requirements for a Type 6 and/or Type 9 licence issued by the SFC.

4. A SPAC Promoter that does not hold the requisite SFC licence would be considered to have met the licensing requirement under MB Rule 18B.10(1) if its controlling shareholder satisfies the requirement. This is subject to the conditions that:

   (i) The SPAC demonstrates that sufficient safeguards and/or undertakings are put in place to ensure the SPAC Promoter's controlling shareholder's oversight of the SPAC Promoter's responsibilities; and

   (ii) The SPAC Promoter's controlling shareholder gives an undertaking to the Exchange that they will ensure the SPAC Promoter's compliance with applicable Listing Rules.

5. MB Rules 18B.32 to 18B.34 would apply if there is a material change in such controlling shareholder.

Character, experience and integrity

6. The listing document should include the following information:

SPAC Promoter experience	(i) For each SPAC Promoter, its experience as a SPAC Promoter in other SPACs which it established/is interested in previously and/or currently, including its role, level of involvement, duration, and the names of such SPACs. (ii) For each of the SPACs referred to in (i): (a) Amount of funds raised at its initial offering; (b) Selection criteria (e.g. size and sector) of the De-SPAC Target; (c) Size and terms of the Promoter Shares; (d) Time that elapsed between the date of the SPAC's initial offering and the date of the completion of any De-SPAC Transaction; (e) Amount of funds raised from independent third party investment as part of any De-SPAC Transaction; (f) A summary of the De-SPAC Target that was the subject of any De-SPAC Transaction (e.g. sector and geographical location, market share, brief historical financial data and its management); (g) Salient terms of any De-SPAC Transaction, including valuation, conditions to completion and parties involved; (h) (1) Percentage of any redeeming SPAC shareholders in connection with any De-SPAC Transaction; (2) percentage of SPAC shareholders that voted against any De-SPAC Transaction; and (3) a summary of the impact of dilution to non-redeeming SPAC shareholders upon exercise of all SPAC Warrants and conversion of all Promoter Shares and all Promoter Warrants in the Successor Company; (i) Market capitalisation of the Successor Company following any De-SPAC Transaction; (j) Performance indicators of the Successor Company since any De-SPAC Transaction (absolute performance indicators and performance relative to that of relevant indexes); and (k) Whether the SPAC was liquidated and/or required to return its funds to SPAC shareholders.
Investment management experience	(i) Experience in the professional management of investments on behalf of third party investors and/or provision of investment advisory services to professional/institutional investors, including, for each role, a description of:

	(a) Its role and responsibilities; (b) The types and geographical coverage of investments managed, fund size, and the fund's investment objectives and policies; and (c) Performance indicators (e.g. net asset value of the managed funds, their absolute performance and relative performance compared to that of other major managed funds and indexes).
Other experience	(i) Other experience relevant to the role of SPAC Promoter for the SPAC seeking a listing (e.g. managing businesses in the sectors in which the SPAC aims to identify targets) with an explanation of how this experience is relevant to a SPAC Promoter role.
Other information	(i) Details of licences held (see paragraphs 2(i) and 3 above), including the year they were obtained and the granting institutions. (ii) Any business interests that compete or are likely to compete either directly or indirectly with the SPAC for prospective De-SPAC Targets with details of the nature of the competition[1]. (iii) Any breaches of laws, rules and regulations and any other matters that have a bearing on the integrity and/or competence of the SPAC Promoter.

7. A SPAC Promoter that can demonstrate the following experiences will be viewed favorably by the Exchange:

   (i) Managing assets with an average collective value of at least HK$8 billion over a continuous period of at least three financial years; or

   (ii) Holding a senior executive position (e.g. chief executive or chief operating officer) at an issuer that is or has been a constituent of the Hang Seng Index or an equivalent flagship index[2].

8. The factors set out in paragraphs 6 and 7 above are neither exhaustive nor binding. The Exchange will exercise its discretion on a case-by-case basis and adopt a holistic approach to determine whether it is satisfied with the suitability and eligibility of a SPAC Promoter.

Listing Applications

9. A SPAC (for its initial listing) and a Successor Company (for a De-SPAC Transaction) must file a new application for listing in accordance with MB Chapter 9[3].

10. In respect of the prospectus and disclosure requirements under C(WUMP)O:

[1] Existing requirements on competing interests under MB Rule 8.10, paragraph 27A of Appendix D1A to the Listing Rules, and **Chapter 3.8** on guidance of relationship with controlling shareholders will apply to SPACs, and "controlling shareholders" in those materials shall be deemed to include "SPAC Promoters".

[2] Including a well referenced index within a particular market. For example, S&P 500 (SPX), NASDAQ-100 Index (NDX) and Dow Jones Industrial Average (DJI) in the US, and FTSE 100 (UKX) in the UK.

[3] See "Checklists and Forms for New Applicants" available on the Exchange's website for a list of documents required to be filed with the Exchange together with the respective listing application.

(i) A SPAC and a Successor Company should seek legal advice on the extent to which its listing document at initial listing and De-SPAC Transaction (as the case may be) must comply with the prospectus requirements of C(WUMP)O; and

(ii) The Exchange will view a De-SPAC Transaction as equivalent to an offering to the public and will vet the listing document issued for the De-SPAC Transaction on the basis that it must meet the prospectus disclosure requirements of C(WUMP)O in full.

Stock Marker

11. The listed securities of a SPAC will be assigned a special stock short name marker.

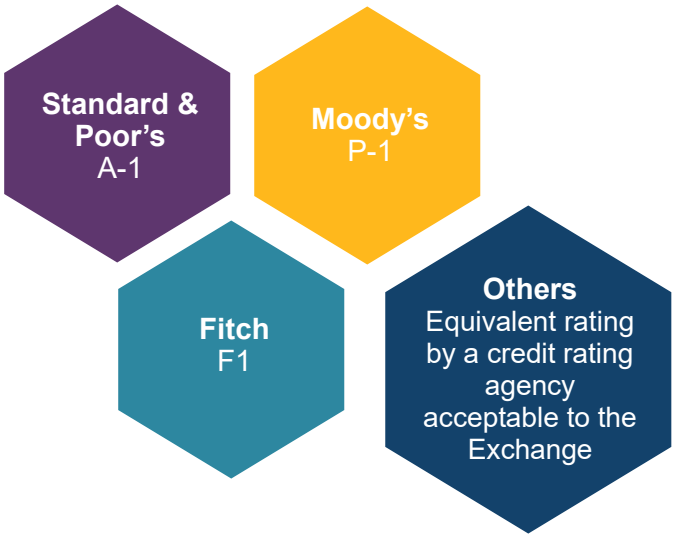
	Marker for stock short name
SPAC Shares	End with the marker "Z".
SPAC Warrants	End with the marker "Z Y Y M M" or "Z Y Y" (with YY representing the expiry year and MM representing the expiry month of the SPAC Warrants).

See the Exchange's website for details.

Funds in Escrow Account – Cash Equivalent

12. Proceeds from a SPAC's initial offering should be held in the form of cash or cash equivalent. Short-term securities issued by governments with the following minimum credit ratings are considered as cash equivalent for the purpose of MB Rule 18B.18:

Credit Agency and minimum credit rating



Financial Information and Accounting Matters

13. The following information should be included in the "Financial Information" section of the listing document of a SPAC's initial listing:

Significant accounting policies and judgements	Significant accounting policies and judgements for SPAC transactions and material events that occurred subsequent to the balance sheet date, which have a significant effect on the amounts recognised in the financial statements and/or are relevant to an understanding of the financial information of the SPAC. The above should also be disclosed in the accountants' report as required under the applicable accounting standards. In particular, in the context of the initial listing

	of the SPAC, those disclosures should also cover accounting policies for transactions entered into subsequent to the balance sheet date. This requirement also applies to a SPAC on an ongoing basis (e.g. in the audited financial statements of the SPAC's annual report). *Note: A SPAC with, or seeking, a listing on the Exchange is advised to consult its reporting accountants (and other professional advisers, as appropriate) to evaluate the accounting implications for complex areas arising from SPAC transactions (such as the issuance of shares and warrants) with reference to applicable financial reporting standards.*
Pro forma net tangible assets/ liabilities	Pro forma adjustments and notes regarding net tangible assets/liabilities as required under paragraph 21 of Appendix D1A to the Listing Rules, where appropriate, providing sufficient information in accordance with MB Rule 4.29 to illustrate the potential financial impact arising from a SPAC's initial listing, including the accounting implications and effects of the shares and other financial instruments issued or to be issued by a SPAC.
Working capital sufficiency	A statement of working capital sufficiency required under MB Rule 8.21A, including the basis of the directors' view on its working capital sufficiency as required under paragraph 36 of Appendix D1A to the Listing Rules, and the basis upon which the sponsor concurs with the directors' view. *Note: For the purpose of this requirement, the relevant cash flow forecast should focus on the working capital needed to cover the operating expenses prior to the De-SPAC Transaction and exclude any amounts of the initial offering proceeds that are subject to redemption or amounts that are expected to be used to fund a De-SPAC Transaction.*

Independent Third Party Investors

Minimum independent third party investment thresholds

14. The minimum amount of investment referred to in MB Rule 18B.41 has been modified[4], such that the total funds to be raised from the independent third party investors referred to in MB Rule 18B.40 must constitute at least the prescribed percentage of the negotiated value of the De-SPAC Target as set out in that rule, or HK$500 million in value, whichever is lower.

[4] The modification will apply from 1 September 2024 to 31 August 2027. See the "Joint Announcement of the SFC and the Exchange in relation to Temporary Modifications to Requirements for Specialist Technology Companies and De-SPAC Transactions" dated 23 August 2024 on the Exchange's website.

Independence requirement

15. The independence requirement referred to in MB Rule 18B.40 has been modified[5], such that third party investors must meet the following independence requirements, instead of those that apply to an independent financial adviser under MB Rule 13.84:

    (i) The independence of a third party investor will be determined as at the date of the signing of the definitive agreement for the relevant investment in the De-SPAC Transaction, and up to listing of the Successor Company.

    (ii) The following persons will not be considered as independent third party investors:

        (a) Core connected persons[6] of the SPAC or the De-SPAC Target, except for any substantial shareholder of the SPAC or the De-SPAC Target that is considered a core connected person only because of the size of its shareholding in the SPAC or the De-SPAC Target (subject to paragraph 15(ii)(b) below);

        (b) Controlling shareholder (or any person within the group of persons who are considered as controlling shareholders) of the SPAC or the De-SPAC Target; and

        (c) The founders of the De-SPAC Target and their respective close associates.

    (iii) The Exchange retains the discretion to deem any other person to be not independent based on the facts and circumstances of an individual case. For example, a person who has an acting-in-concert agreement or arrangement with a SPAC Promoter or with a controlling shareholder of the SPAC or the De-SPAC Target or with a founder of the De-SPAC Target, normally will not be considered as independent.

Sophisticated independent third party investors

16. For the purpose of MB Rule 18B.42, a SPAC must demonstrate that at least 50% of the value of the independent third party investment referred to in MB Rule 18B.41 is contributed by no fewer than three sophisticated investors. The Exchange will assess whether an investor is sophisticated on a case-by-case basis by reference to its relevant investment experience, and its knowledge and expertise in the relevant field of the De-SPAC Target, which could be demonstrated by its net assets, assets under management ("**AUM**"), size of its investment portfolio or track record of investments, where applicable.

17. For illustrative purposes only, the Exchange would generally consider the following as examples of the types of investors that would be considered sophisticated for the purpose of paragraph 16:

    (i) An asset management firm with AUM of, or a fund with a fund size of, at least HK$8 billion;

    (ii) A company with a diverse investment portfolio size of at least HK$8 billion; or

    (iii) A key participant in the relevant upstream or downstream industry of the De-SPAC Target, with a meaningful market share and size, as supported by appropriate independent market or operational data.

[5] The modification will apply from 1 September 2024 to 31 August 2027. See the "Joint Announcement of the SFC and the Exchange in relation to Temporary Modifications to Requirements for Specialist Technology Companies and De-SPAC Transactions" dated 23 August 2024 on the Exchange's website.

[6] As defined in MB Rule 18B.01 with respect to the core connected persons of the SPAC, or as defined in MB Rule 1.01 with respect to the core connected persons of the De-SPAC Target.

18. "Investment portfolio" for the purpose of paragraph 17(ii) means the aggregate value of investments in investee companies as determined under the prevailing accounting standards. The Exchange may consider other measures of investment values that may not be reflected in the investor's financial statements, such as the fair value of an investment supported by an independent valuation. The Exchange would not consider consolidated subsidiaries to be investee companies.

19. A fund managed by a fund manager that has AUM of an amount that meets the threshold set out in paragraph 17(i), or a wholly-owned subsidiary of an entity referred to in paragraph 17(i) or (ii), would qualify as a sophisticated investor.

20. The Exchange may still consider investors of a type that is not included in the illustrative examples in paragraph 17 above as sophisticated, on a case-by-case basis, considering the specific circumstances of an applicant. The applicant should demonstrate that these investors have relevant investment experience, knowledge and expertise.

21. The applicant must disclose the size (and the basis for determination) of the AUM, the fund or the investment portfolio (as the case may be) and any other information relevant to the sophisticated independent third party investors in (i) the announcement of the De-SPAC Transaction (**"De-SPAC Announcement"**) referred to in MB Rule 18B.44; and (ii) the listing document issued for the De-SPAC Transaction referred to in MB Rule 18B.49 to substantiate that they have the relevant investment experience, knowledge and expertise to be considered sophisticated. Where the above information cannot be disclosed in detail for confidentiality reasons, the Exchange may accept alternative disclosures appropriate to the circumstances on a case-by-case basis, taking into account the factors set out in the relevant guidance that the Exchange has published[7]. Such information should be given as of:

    (i) A date which is no more than six months prior to the date of signing of the definitive agreement for the investors' relevant investment in the De-SPAC Transaction; and

    (ii) A date which is no more than six months prior to the date of the listing application of the Successor Company.

Commitment of independent third party investments

22. The independent third party investments required under MB Rules 18B.41 and 18B.42 must have been committed by the time of the De-SPAC Announcement.

De-SPAC Announcement

23. A De-SPAC Announcement must include the following information in addition to the requirements set out in MB Rules 18B.44 to 18B.48:

    (i) A description of all the independent third party investors referred to in MB Rule 18B.41, including the sophisticated investors referred to in paragraph 16, and the principal terms of their investments;

    (ii) The identities of, and amounts committed by, the independent third party investors;

    (iii) The negotiated value of the De-SPAC Target and the basis upon which such value was determined;

[7] See **Chapter 3.14** and any other relevant guidance as implemented by the Exchange from time to time for guidance on alternative disclosure on the background and investment experience of the sophisticated independent investors.

(iv) The board of directors' opinion confirming the satisfaction of the "fair market value" requirement in MB Rule 18B.39 and the basis of such opinion (in a form acceptable to the Exchange[8]); and

(v) The material terms of any earn-out rights referred to in Note 1 to MB Rule 18B.29(1).

Participation by a SPAC Promoter in a SPAC's Initial Offering and De-SPAC Transaction

24. The Existing Shareholders Conditions referred to in **Chapter 4.15** are dis-applied to permit a SPAC Promoter to participate in: (1) an offering of SPAC Shares at the initial listing of a SPAC; and/or (2) the financing of a De-SPAC Transaction, subject to the below conditions:

(i) The SPAC Promoter meets the definition of a Professional Investor;

(ii) The SPAC or the Successor Company (as the case may be) complies with all applicable open market requirements, including MB Rule 18B.05 or 18B.65 (as applicable);

(iii) The price and terms of subscription of shares by the SPAC Promoter must be substantially the same as, or are not more favourable to the SPAC Promoter, than those available to other investors who are investing in the SPAC or the Successor Company (as the case may be) at the same time as the SPAC Promoter, and any such participation increases the SPAC Promoter's "capital at risk" to align its interests more closely with the interest of ordinary shareholders;

(iv) The SPAC or the Successor Company (as the case may be) and the sponsor must confirm to the Exchange that no preferential treatment has been, nor will be, given to the SPAC Promoter other than the preferential treatment of assured entitlement; and

(v) The participation is disclosed prominently in the listing document produced for the purpose of the SPAC's listing or the De-SPAC Transaction (as the case may be).

Forward Purchase Agreements

25. A SPAC may enter into a forward purchase agreement with the SPAC Promoters or other institutional investors before the initial listing of the SPAC, under which the purchaser would commit to subscribe, and the SPAC would commit to issue, equity in connection with the De-SPAC Transaction at a specified amount. It may also contain an option for the purchaser to subscribe for additional equity up to a specified amount, exercisable at the discretion of the purchaser.

26. As a SPAC Promoter would be a connected person of a SPAC[9], any such forward purchase agreement entered into by the SPAC Promoter or its associate with a SPAC would constitute a connected transaction under the Listing Rules.

[8] In assessing the above, the Exchange will adopt a holistic approach and take into account factors such as (i) the basis of the opinion, (ii) the negotiated value of the De-SPAC Target as agreed by parties; (iii) the sponsor's opinion; (iv) the amount committed by, and involvement of and validation by the independent third party investors; and (v) the valuation of comparable companies.

[9] See MB Rule 18B.01.

27. A SPAC wishing to apply for a modification or waiver of these Listing Rules for the purpose of entering into such a forward purchase agreement before the initial listing must provide the Exchange with full details of the proposed agreement at the earliest opportunity. The Exchange will consider such applications on a case-by-case basis and on the individual merits of each case.

Loans Granted by a SPAC Promoter to a SPAC

28. It is common for a SPAC to receive loans from its SPAC Promoter to meet the SPAC's working capital needs, normally through promissory notes.

29. The following table sets out the treatment of loans with terms that permit settlement by issuance of securities:

Terms of the loan	Treatment
Permit settlement (in full or in part) through conversion of the loan into SPAC securities at the discretion of the SPAC or SPAC Promoter	(i) This is prohibited to ensure that a SPAC Promoter is not able to avoid the risk of non-completion of a De-SPAC Transaction that is normally borne by the beneficial owners of SPAC securities.
Permit settlement by the issuance of the securities of the SPAC without discretion of the SPAC or SPAC Promoter	**Application of relevant requirements:** (i) The terms of settlement must comply with all requirements relating to the issue of the relevant SPAC securities (e.g. restrictions on terms and issue price) as set out in MB Chapter 18B[10]. (ii) The SPAC securities to be issued to settle the loan will be counted in the relevant dilution cap[11]. (iii) The SPAC Promoter that will receive the SPAC securities to be issued to settle the loan is required to comply with the conditions set out in paragraph 24 above (if applicable).

30. As a SPAC Promoter is a connected person of a SPAC[12], loans granted by SPAC Promoters to a SPAC would be subject to the connected transaction requirements of MB Chapter 14A:

(i) If the loan will not be settled by the securities of the SPAC, such a loan will be fully exempt from the connected transaction requirements only if such financial assistance is (a) conducted on normal commercial terms or better; and (b) not secured by the assets of the SPAC[13]; or

[10] Including MB Rules 18B.07, 18B.22, 18B.30 and 18B.31.
[11] MB Rules 18B.23 (with respect to warrants) and 18B.29 (with respect to Promoter Shares).
[12] MB Rule 18B.01.
[13] See MB Rule 14A.90.

(ii) If the loan will be settled by the securities of the SPAC, such a loan will be subject to compliance with all applicable connected transaction requirements under MB Chapter 14A, including the requirements relating to independent shareholders' approval[14]. The SPAC is also reminded to consider other Listing Rules implications (including those of MB Chapters 13 and 15) in relation to the issuance of such securities.

Additional Connected Transaction Requirements

31. If a De-SPAC Transaction is a connected transaction under MB Chapter 14A, a SPAC must comply with the applicable requirements in MB Chapter 14A as well as the additional connected transaction requirements under MB Rule 18B.56.

32. Where a De-SPAC Transaction constitutes a connected transaction solely by virtue of MB Rule 14A.28, the Exchange will consider waiving the additional requirements under MB Rule 18B.56 provided that (i) all shareholders of the De-SPAC Target are not connected persons of the SPAC and are independent of the SPAC and its connected persons[15]; and (ii) a substantial shareholder of the De-SPAC Target will, as a result of the De-SPAC Transaction, become a controller or an associate of a controller of the Successor Company.

33. For the avoidance of doubt, the Exchange will continue to apply the applicable connected transaction requirements under MB Chapter 14A in such circumstances, and the SPAC must appoint an independent financial adviser to make recommendations to the independent board committee and shareholders on the De-SPAC Transaction. The additional requirements under MB Rule 18B.56 also apply to a De-SPAC Transaction that may confer benefits on connected persons through their interests in the entities involved in the transaction.

Trustee or Custodian

34. MB Rule 18B.17 is to ensure that sufficient protections are placed around the funds raised by SPACs, so that they are available to return to shareholders who choose to redeem their shares or to return to shareholders if and when the SPAC is liquidated. If the funds held in the escrow account are required to be returned to the SPAC shareholders, the trustee/custodian should remit them to the SPAC shareholders directly.

35. A trustee or custodian that operates the escrow account of a SPAC must possess the qualifications and comply with the general obligations[16] below:

Qualifications



(i) Accepted by the SFC in respect of existing Collective Investment Schemes authorised by the SFC.

(ii) Based in Hong Kong as the escrow account is required to be domiciled in Hong Kong under MB Rule 18B.16.

(iii) Independent of the SPAC and its connected persons, including the SPAC Promoters.

[14] See MB Rules 14A.36 to 14A.39.

[15] The SPAC should confirm that (i) all shareholders of the De-SPAC Target are not connected persons of the SPAC and are independent of the SPAC and its connected persons; and (ii) there is no agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) between any shareholders of the De-SPAC Target and any connected persons of the SPAC with respect to the De-SPAC Transaction.

[16] These are consistent with paragraphs 4.5 and 4.6 of Chapter 4 of the UT Code, as amended from time to time. For the avoidance of doubt, the obligations set out in paragraph 35 are the only obligations applicable to the trustee or custodian regarding the operation of the escrow account of a SPAC under MB Rule 18B.17.

Obligations



(i) Take into its custody or under its control the property of the SPAC in the escrow account referred to in MB Rule 18B.16 in accordance with MB Rules 18B.16 to 18B.20.

(ii) Register cash and registrable assets in the name of or to the order of the trustee/custodian.

(iii) Be liable for the acts and omissions of nominees, agents and delegates in relation to assets forming part of the property of the SPAC in the escrow account[17].

(iv) For an escrow account to be ring-fenced under MB Rule 18B.16, segregate the property of the SPAC in the escrow account from the property of:

(a) The SPAC and its core connected persons;

(b) The trustee/custodian and any nominees, agents or delegates throughout the custody chain; and

(c) Other clients of the trustee/custodian and nominees, agents or delegates throughout the custody chain, unless held in an omnibus account with adequate safeguards in line with international standards and best practices to ensure that the property of the SPAC in the escrow account is properly recorded with frequent and appropriate reconciliations being performed.

(v) Put in place appropriate measures to verify ownership of the property of the SPAC in the escrow account.

(vi) Take reasonable care to ensure that:

(a) Any payments or distributions from the escrow account are carried out in accordance with MB Rules 18B.19 and 18B.20;

(b) The investment limitations set out in MB Rule 18B.18 (including paragraph 12 of this Guide in relation to "cash equivalents") are complied with; and

(c) The cash flows of the escrow account are properly monitored.

(vii) Exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of any nominees, agents and delegates appointed for the custody and/or safekeeping of the property of the SPAC in the escrow account; and be satisfied that the nominees, agents and delegates retained remain suitably qualified and competent on an ongoing basis to provide the relevant services.

(viii) Exercise due skill, care and diligence in discharging its obligations and duties appropriate to the nature of the escrow account.

[17] Nominees, agents and delegates can be appointed for the custody and/or safekeeping of the property of the SPAC in an escrow account as long as these entities are subject to prudential regulation and supervision by authorities such as The Hong Kong Monetary Authority. Such nominees, agents or delegates can be unaffiliated with the trustee/custodian.

	(ix) Establish clear and comprehensive escalation mechanisms to deal with potential breaches detected in the course of discharging its obligations and report material breaches[18] to the Exchange in a timely manner. (x) Update the SPAC and report to the Exchange (either directly or via the SPAC) any material issues or changes that may impact its eligibility/capacity to act as a trustee/custodian of the escrow account.
Change of trustee/ custodian 	(i) A SPAC must appoint a new trustee/custodian as soon as possible (in any case, no later than one month) after it becomes aware that the existing trustee/custodian is or will become ineligible to act as a trustee/custodian for the escrow account for the purpose of MB Rule 18B.17. (ii) The appointment of a new trustee/custodian must be subject to the prior approval of the Exchange. (iii) A trustee/custodian must not retire except upon the appointment of a new trustee/custodian. The retirement of the trustee/custodian should take effect at the same time as when the new trustee/custodian takes up office.
Undertaking 	(i) Prior to its appointment, a trustee/custodian must enter into an undertaking with the Exchange to comply with the "Obligations" section and point (iii) under "Change of trustee/custodian" section in this table.

36. **Annex B.3** sets out the FAQs for this chapter.

[18] The trustee/custodian is expected to inform the Exchange promptly of any material breach of the Listing Rules and the Guide in relation to the operation of the escrow account that has come to its knowledge, which has not been otherwise reported to the Exchange by the SPAC. An example of "material breach" includes acquisition of securities which fall outside the scope of cash equivalents for the purpose of MB Rule 18B.18 as set out in paragraph 12 of this chapter.

2.5 SPECIALIST TECHNOLOGY COMPANIES

1. This chapter provides guidance for Specialist Technology Companies with, or seeking, a listing on the Exchange pursuant to MB Chapter 18C. The chapter is divided into the following sections:

   A. Specialist Technology Industries

   B. Minimum Initial Market Capitalisation Requirement and Other Criteria for Specialist Technology Companies

   C. R&D Expenditure

   D. Third Party Investments

   E. Path to Achieving Revenue Requirement

   F. Minimum Allocation to Independent Price Setting Investors

   G. Liquidity Arrangements

   H. Disclosures

   I. Subscription of Shares by Existing Shareholders

   J. Specialist Technology Company with a WVR Structure

   K. Stock Marker

   L. Lock-up Periods

   M. Applicability of Percentage Ratios

Definitions

- **Commercial Company** means a Specialist Technology Company that has revenue of at least HK$250 million for its most recent audited financial year.
- **Pre-Commercial Company** means a Specialist Technology Company that does not meet the revenue requirement to be a Commercial Company.
- **Specialist Technology Company** means a company primarily engaged (whether directly or through its subsidiaries) in the R&D of, and the commercialisation and/or sales of, Specialist Technology Product(s) within an acceptable sector of a Specialist Technology Industry.
- **Specialist Technology Industry** and **an acceptable sector of a Specialist Technology Industry** means an industry or an acceptable sector (as the case may be) that is included in a list of Specialist Technology Industries set out in this Guide.
- **Specialist Technology Product** means a product and/or service (alone or together with other products or services) that applies science and/or technology within an acceptable sector of a Specialist Technology Industry.

A. Specialist Technology Industries

List of Specialist Technology Industries

2. The following table sets out the list of Specialist Technology Industries and the non-exhaustive[1] acceptable sectors that the Exchange considers to fall within each of these industries:

Acceptable sector	Description
(i) Next-generation information technology	
Software, platform and infrastructure solutions powered by cloud computing and big data analytics	
Cloud-based services	The application of cloud computing in as-a-service business models through the access and use of servers, networks, storage capacity, development tools and applications via the internet, including: (a) *Software as a service (SaaS)*: the delivery of software applications over cloud infrastructure enabling companies to conduct their operations using the application; (b) *Platform as a service (PaaS)*: the delivery of a platform for the creation of software in the form of virtualisation, middleware, and/or operating systems, which is then delivered over cloud infrastructure; and (c) *Infrastructure as a service (IaaS)*: the delivery of cloud computing infrastructure (i.e. servers, storage, and networks) as an on-demand service.
Artificial intelligence ("AI")	The development of AI technology, including: (a) *Technology and infrastructure enabling AI*: the development of open-source development platforms, computing, and data services; (b) *AI-empowered algorithm programming*: image recognition, audio-visual learning, natural language processing (NLP), machine learning, and deep learning; and (c) *AI solutions*: the design and provision of AI solutions used in different industry verticals.

[1] The list is non-exhaustive in nature given an applicant falling outside the list may still be considered as "within an acceptable sector of a Specialist Technology Industry" (see paragraphs 3 to 6) and may be updated from time to time (see paragraph 9).

Acceptable sector	Description
(ii) Advanced hardware and software	
The development of new hardware and software using advanced technology	
Robotics and automation	The development of robots, automated systems, and enabling technologies, including: (a) *Robot technology*: the engineering of robots, computer software and machines for the improved performance of tasks and/or automation processes; (b) *Internet of Things (IoT) technology*: machine-to-machine communications designed to monitor events, process data and determine actions; (c) *Smart home applications*: home automation designs involving human-robot interaction and/or human-appliance interaction; and (d) *Smart product designs*: design and manufacturing of sensor-driven, WiFi-enabled, self-learning or programmable products.
Semiconductors	The development of technology for applications along the semiconductor value chain, including: (a) *Production inputs*: materials, manufacturing equipment, electronic design automation (EDA) and core intellectual property (IP); (b) *Design*: logic and physical design, and validation and verification; (c) *Fabrication*: conversion of designs into chips and semiconductor devices; and (d) *Advanced packaging*: flip-chip packaging, 3D packaging and wafer-level packaging.
Advanced communication technology	The development of connectivity technologies used in the transfer of information and/or connection of devices, including: (a) *Next-generation wireless communication systems*: fifth-generation (5G) and beyond technology enabling high-speed and high-volume data transfers over wireless technology infrastructure and applications; and (b) *Satellite communication*: satellite-enabled telecommunications, broadcasting and data communications.

Acceptable sector	Description
Electric and autonomous vehicles	The manufacturing and/or deployment of autonomous vehicles and electric vehicles, and development of enabling technologies, including: (a) *Electric vehicles*: the use of new energy solutions in all-electric or battery electric vehicles (BEVs); (b) *Autonomous vehicles*: vehicles and trucks equipped with self-driving solutions; and (c) *Location technology*: sensors and technology enabling the detection or calculation of the geographical position of a person, mobile device or vehicle.
Advanced transportation technology	The development of transportation technology (excluding electric and autonomous vehicles), and deployment of smart mobility systems, including: (a) *Transportation technology*: new modes of transport (including electric aircraft) and drone technology; and (b) *Intelligent transportation systems*: the application of information and communication technology in road transport, traffic management and safety and mobility systems (including ridesharing).
Aerospace technology	The development of technology used in the research, exploration and utilisation of space, including: (a) *Spacecraft development*: the development of space launch vehicles, satellites, space stations and related components; (b) *Space exploration*: space imaging, earth imaging and robotic spacecraft; and (c) *Utilisation of space in defence capabilities*: space-based services and assets for security and defence purposes.
Advanced manufacturing	The development of technology in production activities that depend on automation, computation, software, sensing, and/or networking, including: (a) *Additive manufacturing*: 3D printing and mass-scale customisation for industrial and manufacturing processes; and (b) *Digitalised manufacturing*: applications of sensors and 3D vision technology in manufacturing processes.

Acceptable sector	Description
Quantum information technology and computing	Software, hardware and services developed based on the principles of quantum information science and technology, including: (a) *Quantum computing*: quantum computing software and/or hardware, and the provision of access to quantum computers via commercial cloud-based platforms; (b) *Quantum communication*: science and technology applied to quantum-secured communication networks; and (c) *Quantum precision measurement*: the application of quantum mechanics and quantum electrodynamics to precision measurement physics.
Metaverse technology	The development of technology (including hardware, software and infrastructure) that enables the following applications: (a) *Virtual reality (VR)*: technology providing a lifelike simulation of reality synthetically or virtually; (b) *Augmented reality (AR)*: technology enhancing human experience through the combination of the physical and digital worlds; and (c) *Brain-computer interfaces (BCIs)*: computer-based systems translating brain signals into commands that are relayed to an output device to carry out a desired action.
(iii) Advanced materials	
The production or integration of new or significantly improved materials to enhance the performance of traditional materials	
Synthetic biological materials	The development of new materials that are genetically encoded and generated through the integration of synthetic biology and materials science. Examples include biopolymers, fibres, optical materials, adhesives and other materials for specialist applications.
Advanced inorganic materials	The development of advanced functional inorganic materials science and technology for the following applications: (a) *Special glass*: smart switchable glass technology such as smart windows and display; (b) *Special metals and alloys*: metals and alloys for specialist applications or with special properties; and (c) *Special ceramics*: advanced ceramics made from inorganic non-metallic compounds.
Advanced composite materials	The development of high-performance composite materials and advanced processing techniques for composite materials. Examples include carbon matrix composite materials and advanced polymers.

Acceptable sector	Description
Nanomaterials	The development and application of technology to enable the manipulation of materials conducted at a nanoscale, including: (a) *Manufacturing of end products using nanotechnology*: nanostructured filters, coatings and additives; and (b) *Development of nanotechnology*: the manufacturing and testing of equipment for nanoscale measurement and/or manipulation of materials.
(iv) New energy and environmental protection	
The production of energy from natural sources and the development of networks and infrastructure to support such production and other processes for improving environmental sustainability and resource use and/or energy efficiency	
New energy generation	The development of technology enabling new, clean or renewable energy generation, including solar and wind power, hydropower, hydrogen energy, wave powered electricity generation and biofuel.
New energy storage and transmission technology	The development of energy transmission and distribution technology, and deployment of infrastructure dedicated to the generation and storage of new energy (including clean or renewable energy and hydrogen energy) including: (a) *New energy storage systems*: battery technologies and long duration energy storage; and (b) *New energy transmission and distribution networks*: power grid management and development and smart grid developments.
New green technology	The development of technology-driven solutions for environmental conservation or remediation, or technologies that enhance resource- and/or energy-efficiency including: (a) *Environmental remediation*: soil washing, soil vapour extraction and thermal desorption; and (b) *Emissions reduction*: hydrogen and carbon capture and storage.

Acceptable sector	Description
(v) New food and agriculture technologies	
Food and agriculture technologies applied to agriculture, farming and food processing activities	
New food technology	The development of technology for food production and processing, including: (a) *Artificial meat, sustainable protein technology, and synthetic biology in food technology*: production of novel ingredients including cultured meat, plant-based meat and egg substitution, sustainable protein, genome engineering, livestock genetics and macronutrient products; and (b) *Food waste reduction*: new technology enabling food waste reduction, shelf-life enhancement and monitoring.
New agriculture technology	The application of technology in the production of agricultural machinery, equipment and supplies, including: (a) *Agricultural biotechnology and crop efficiency technology*: genetic engineering of crops and crop nutrition diagnostics; (b) *Agricultural synthetic biology*: the application of synthetic biology in crop production, fertilisers and pesticides and animal feedstock; and (c) *Farming technology*: hydroponic crop farming, vertical farming, insect farming and microbe growing systems.

Outside the scope of the list of Specialist Technology Industries and acceptable sectors

3. The Exchange may consider applicants that fall outside the list of Specialist Technology Industries or acceptable sectors as "within an acceptable sector of a Specialist Technology Industry" taking into account the following:

Acceptable	Not acceptable
✓ High growth potential. ✓ Success can be demonstrated to be attributable to the application, to its core business, of new technologies and/or the application of the relevant science and/or technology within that sector to a new business model, which differentiates it from traditional market participants serving similar consumers or end users. ✓ R&D significantly contributes to its expected value and constitutes a major activity and expense. ✓ Biotech Company that does not base its listing application on a Regulated Product.	× Biotech Company that bases its listing application on a Regulated Product (as defined under MB Chapter 18A)[2].

4. Applicants that fall outside the list of Specialist Technology Industries or acceptable sectors as set out in paragraph 2 must submit a pre-IPO enquiry to the Exchange to seek confidential guidance on whether it can be considered as "within an acceptable sector of a Specialist Technology Industry" before submitting a listing application under MB Chapter 18C.

5. An applicant should include in its submission all relevant facts with a meaningful and balanced discussion of its core business, technologies and innovations. Selective favourable disclosures will prolong the Exchange's assessment.

6. The Exchange will take into account all relevant facts and circumstances in making its assessment, and consult with the SFC, and seek its approval, before determining such a potential applicant to be "within an acceptable sector of a Specialist Technology Industry" and so eligible to submit a listing application under MB Chapter 18C.

7. The Exchange also retains the discretion to reject an application for listing from an applicant within an acceptable sector as set out in paragraph 2 if it displays attributes inconsistent with the principles set out under the heading "Acceptable" in paragraph 3 provided that in such context the second acceptable principle shall be replaced by "the applicant's success can be demonstrated to be attributable to the application, to its core business, of the relevant Specialist Technology".

Applicants with multiple business segments

8. Where an applicant has multiple business segments, some of which do not fall within one or more acceptable sectors of the Specialist Technology Industries, the Exchange will adopt a holistic approach in assessing whether the applicant is "primarily engaged" in the relevant business (as defined in "Specialist Technology Company"). Non-exhaustive examples include:

[2] A Biotech Company relying on a Regulated Product as the basis of its listing application that fails to satisfy the requirements under MB Chapter 18A (and the relevant guidance) is not permitted to submit an application under MB Chapter 18C.

(i) Whether a substantial portion of the total operating expenditure of the applicant and staff resources (including their time and the number of staff with relevant expertise and experience) was spent on the R&D of, and the commercialisation and/or sales of, Specialist Technology Products in the applicant's Specialist Technology business segment[3] for at least three financial years prior to listing;

(ii) Whether the basis for investors' valuation and the expected market capitalisation of the applicant is based primarily on the applicant's Specialist Technology business segment, rather than its other business segments or assets unrelated to its Specialist Technology business segment;

(iii) Whether the proposed use of proceeds for listing would primarily be applied to its Specialist Technology business segment;

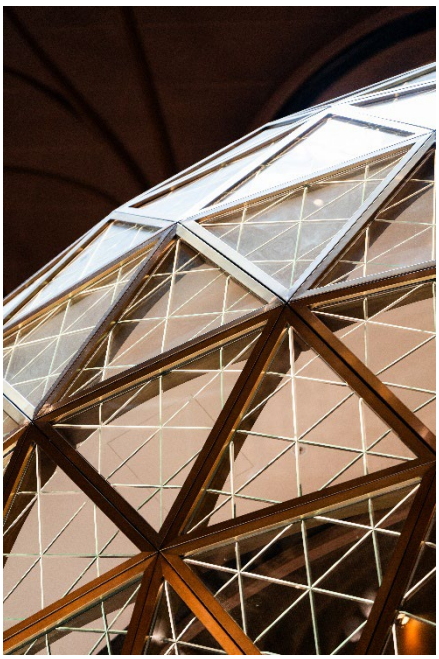
(iv) The proportion of the revenue (if any) generated by the Specialist Technology business segment relative to the total revenue of the applicant; and

(v) The reason for retaining the non-Specialist Technology business segment and the history of the applicant's operations.

9. The Exchange will update the list of Specialist Technology Industries and acceptable sectors from time to time, as necessary, after consultation with the SFC and with its approval. One of the circumstances in which it may do so is following, or to accompany, the listing of an applicant from a new industry/sector. However, the Exchange reserves the right not to update in these circumstances if, for example, the applicant has characteristics that are not generally applicable to other companies in its industry/sector.

B. Minimum Initial Market Capitalisation Requirement and Other Criteria for Specialist Technology Companies

Initial market capitalisation



10. The minimum initial market capitalisation at the time of listing required for the listing of Specialist Technology Companies pursuant to MB Rule 18C.03(3) has been modified[4], such that:

(i) A Commercial Company must have an initial market capitalisation at the time of listing of at least HK$4 billion; or

(ii) A Pre-Commercial Company must have an initial market capitalisation at the time of listing of at least HK$8 billion.

[3] For applicants with multiple business segments, the business activities attributable to a Specialist Technology business segment are expected to constitute one or more operating and/or reporting segments under the applicable accounting and financial reporting standards (for example see IFRS 8).

[4] The modification will apply from 1 September 2024 to 31 August 2027. See the "Joint Announcement of the SFC and the Exchange in relation to Temporary Modifications to Requirements for Specialist Technology Companies and De-SPAC Transactions" dated 23 August 2024 on the Exchange's website.

Other criteria

11. The following table sets out the criteria that an applicant applying for listing under MB Chapter 18C must satisfy, which are neither exhaustive nor binding, and the Exchange will take into account all relevant circumstances in its assessment of the eligibility and suitability of an applicant for listing, including the attributes set out in paragraph 3 (as modified by paragraph 7 where applicable):

Ownership continuity 	(i)	Ownership continuity and control in the 12 months prior to the date of the listing application, and up until the time immediately before the offering and/or placing becomes unconditional[5].
	(ii)	The Exchange may grant waivers on a case-by-case basis from the ownership continuity requirement with respect to a Specialist Technology Company that is listed by way of a De-SPAC Transaction.
Revenue growth (Commercial Companies only) 	(i)	A Commercial Company is normally expected to demonstrate a year-on-year growth of revenue throughout the track record period with allowance for temporary declines in revenue (e.g. due to economic, market or industry-wide conditions or other factors which were temporary and outside of the applicant's control). For this purpose, only revenue satisfying the requirement of the Note to MB Rule 18C.03(4) will be recognised. The reasons for, and remedial steps taken (or to be taken) to address, any downward trend in the Commercial Company's annual revenue must be explained to the Exchange's satisfaction and disclosed in its listing document.
Use of proceeds (Pre-Commercial Companies only) 	(i)	A Pre-Commercial Company applicant must have, as its primary reason for listing, the raising of funds for the R&D of, and the manufacturing and/or sales and marketing of, its Specialist Technology Product to bring them to commercialisation and achieving the revenue threshold as required for a Commercial Company.

C. R&D Expenditure

12. For calculating the amount of R&D expenditure for the Specialist Technology Product:

Include	Exclude
✓ Costs directly attributable to the Specialist Technology Company's R&D activities during the period (see paragraph 13), including development costs for the period that have been capitalised as intangible assets for accounting purposes.	× General, administrative or other costs that are not clearly related to R&D activities. × Initial recognition of any fixed assets relating to the applicant's R&D activities (e.g. capital expenditures for acquiring an R&D centre).

[5] The Exchange will apply the same guidance it has published on the ownership continuity and control requirement as set out in MB Rules 8.05(1)(c), 8.05(2)(c) and 8.05(3)(c) for the purpose of this ownership continuity requirement.

Include	Exclude
✓ Amortisation of intangibles used in R&D activities (to the extent the related R&D costs being capitalised as intangibles have not been included above).	× Any expense of finance nature.
✓ Costs of personnel engaged in R&D activities.	
✓ Depreciation, service fees or other directly attributable costs of equipment or facilities used in R&D activities (including data centre operating costs, cloud-based service fees, rentals, utilities and maintenance costs).	
✓ Costs of materials consumed in R&D activities.	
✓ Costs of R&D conducted by others on the applicant's behalf (including consulting or testing fees).	

13. For calculating the total operating expenditure under MB Rule 18C.04(2), the total operating expenditure for a period[6] is the sum of (i) the total expenses of the applicant as reflected in the financial statements during the period, excluding cost of sales and any expense of a finance nature; and (ii) any such costs that have not been recognised as expenses during the period but qualify as R&D expenditure as described in paragraph 12 above.

14. An applicant must include a detailed breakdown of its R&D expenditure in its listing document (see "Key area – R&D expenditure, experience and specific risks" of paragraph 55). If any other type of costs apart from those listed in paragraph 12 above is included as qualifying R&D costs, the basis for the inclusion must be explained clearly.

15. See the Appendix to this chapter for illustrative examples of the calculation of the R&D expenditure ratio.

D. Third Party Investments

16. A Specialist Technology Company applicant must have received meaningful investments from sophisticated independent investors.

Independent investor

17. The independence of a sophisticated independent investor will be determined as at the date of signing of the definitive agreement for the relevant investment in an applicant, and up to listing.

[6] Pursuant to MB Rule 18C.04(3), the applicant must meet the applicable percentage threshold under MB Rule 18C.04(2):
(i) on a yearly basis for at least two of the three financial years prior to its listing; and
(ii) on an aggregate basis over all three financial years prior to listing.

18. The following persons will not be considered as sophisticated independent investors[7]:

    (i) Core connected person[8] of the applicant, except for a substantial shareholder of the applicant that is considered a core connected person only because of the size of its shareholding in the applicant (subject to paragraph 18(ii) below);

    (ii) Controlling shareholder (or person within the group of persons who are considered as controlling shareholders) of the applicant; and

    (iii) The founder of the applicant and its close associates.

19. The Exchange retains the discretion to deem any other person to be not independent based on the facts and circumstances of an individual case. For example, a person who has an acting-in-concert agreement or arrangement with the founder or controlling shareholder of a Specialist Technology Company normally will not be considered as independent.

Sophisticated investor

20. The Exchange will assess whether an investor is sophisticated on a case-by-case basis by reference to its relevant investment experience, and its knowledge and expertise in the relevant field, which could be demonstrated by its net assets, assets under management ("**AUM**"), size of its investment portfolio or track record of investments, where applicable.

21. For illustrative purposes only, the Exchange would generally consider the following as examples of the types of investors that would be considered sophisticated:

    (i) An asset management firm with AUM of, or a fund with a fund size of, at least HK$15 billion;

    (ii) A company having a diverse investment portfolio size of at least HK$15 billion;

    (iii) An investor of any of the types above with AUM, fund size or investment portfolio size (as applicable) of at least HK$5 billion where that value is derived primarily from Specialist Technology investments; and

    (iv) A key participant in the relevant upstream or downstream industry with a meaningful market share and size, as supported by appropriate independent market or operational data.

22. "Investment portfolio" for the purpose of paragraphs 21(ii) and 21(iii) means the aggregate value of investments in investee companies as determined under the prevailing accounting standards. The Exchange may consider other measures of investment values that may not be reflected in the investor's financial statements, such as the fair value of an investment supported by an independent valuation. The Exchange would not consider consolidated

[7] The existence of a prior business relationship (e.g. a customer or a supplier of the applicant) would not, by itself, result in failure to meet the independence requirement, as it is not uncommon for an upstream or downstream market participant to invest in a Specialist Technology Company. In assessing the independence of an sophisticated investor who has a prior business relationship with the applicant, the Exchange takes into account factors such as the timing of the investment and the commencement of the business relationship, whether the sophisticated investor has any involvement in the applicant's daily operations and management, and whether the business transactions between the sophisticated investor and the applicant are conducted under normal commercial terms and in the ordinary course of business.

[8] For the avoidance of doubt, a sophisticated investor with board representation will not be classified as a core connected person (and therefore excluded from the definition of a sophisticated independent investor), unless the investor is a close associate of the director.

subsidiaries to be investee companies.

23. A fund managed by a fund manager that has AUM of an amount that meets the threshold set out in paragraph 21(i), or a wholly-owned subsidiary of an entity referred to in paragraph 21(i) or 21(ii), would qualify as a sophisticated investor.

24. The Exchange may still consider investors of a type that is not included in the illustrative examples in paragraph 21 above as sophisticated, on a case-by-case basis, considering the specific circumstances of an applicant. The applicant should demonstrate that these investors have relevant investment experience, knowledge and expertise.

25. The applicant must disclose the size (and the basis for determination) of the AUM, the fund or the investment portfolio (as the case may be) and any other information relevant to the sophisticated independent investors in the listing document to substantiate that they have the relevant investment experience, knowledge and expertise to be considered sophisticated. Such information should be given as of:

    (i) A date which is no more than six months prior to the date of signing of the definitive agreement for the investors' relevant investment in the applicant; and

    (ii) A date which is no more than six months prior to the date of the listing application[9].

    Where the above information cannot be disclosed in detail for confidentiality reasons, the Exchange may accept alternative disclosures appropriate to the circumstances on a case-by-case basis, taking into account the factors set out in the relevant guidance that the Exchange has published[10].

Minimum investments

26. As an indicative benchmark, an applicant applying to list under MB Chapter 18C and meeting the following requirements will generally be considered as having met the requirement of having received meaningful investments:

    (i) **Investments from Pathfinder SIIs:** Investments from a group of two to five sophisticated independent investors (each having invested in the applicant at least 12 months before the date of the listing application) ("**Pathfinder SIIs**") that satisfy the following:

        (a) Such Pathfinder SIIs, in aggregate, (1) hold such amount of shares or securities convertible into shares (e.g. convertible or exchangeable bonds, notes or loans or convertible preference shares) equivalent to 10% or more of the issued share capital of the applicant as at the date of its listing application and throughout the pre-application 12-month period; or (2) have otherwise invested an aggregate sum of at least HK$1.5 billion in the shares or securities convertible into shares of the applicant at least 12 months prior to the date of the listing application (excluding any subsequent divestments made on or before the date of the listing application); and

[9] For example, where (i) the size of the AUM, the fund or the investment portfolio of an investor is below the threshold specified in paragraph 21 of this chapter as of the date referred to in paragraph 25(i), but has subsequently exceeded the threshold as of the date referred in paragraph 25(ii); and (ii) the applicant can satisfactorily demonstrate that such growth is attributable to the investor's investment experience, knowledge and expertise, such investor may be considered acceptable as a sophisticated investor.

[10] See **Chapter 3.14** and any other relevant guidance as implemented by the Exchange from time to time for guidance on alternative disclosure on the background and investment experience of the sophisticated independent investors.

(b) At least two such Pathfinder SIIs (1) each hold such amount of shares or securities convertible into shares equivalent to 3% or more of the issued share capital of the applicant as at the date of its listing application and throughout the pre-application 12-month period; or (2) each has otherwise invested at least HK$450 million in the shares or securities convertible into shares of the applicant at least 12 months prior to the date of the listing application (excluding any subsequent divestments made on or before the date of the listing application).

(ii) **Investments from all sophisticated independent investors:** The following table sets out the investments from all sophisticated independent investors result in them holding, in aggregate, such amount of shares or securities convertible into shares equivalent to at least the percentage of the issued share capital of the applicant (before exercise of any over-allotment option) at the time of listing:

Expected market capitalisation of the applicant at the time of listing[Note]	Minimum total investment from all sophisticated independent investors as a percentage of the issued share capital of the applicant (before exercise of any over-allotment option) at the time of listing	
	Commercial Companies	*Pre-Commercial Companies*
HK$4 billion or more but less than HK$15 billion *(Commercial Companies)* **HK$8 billion or more but less than HK$15 billion *(Pre-Commercial Companies)***	20%	25%
HK$15 billion or more and less than HK$30 billion	15%	20%
HK$30 billion or more	10%	15%

Note: The Exchange has introduced temporary modifications to the minimum initial market capitalisation at the time of listing required for the listing of Specialist Technology Companies, effective from 1 September 2024. See paragraph 10 above for details.

Securities convertible into shares

27. In the case of a sophisticated independent investor holding securities convertible into shares in an applicant, only the investment in the securities to be converted at or before listing will be counted when considering whether the meaningful investment requirement is met.

28. The applicant must disclose in the listing document the number of shares to be converted from such convertible securities at or before listing (and the corresponding investment amount) to demonstrate that it has met the meaningful investment requirement.

Indicative benchmark for the Pathfinder SIIs' investments

29. The Exchange may accept fluctuations in the shareholding of the Pathfinder SII referred to in paragraph 26(i)(a)(1) or (b)(1), taking into account all the relevant circumstances of a particular case. Such fluctuations will generally be accepted in the following circumstances (these are examples only and are non-exhaustive):

(i) **Temporary dilution during the pre-application 12-month period:** Where the Pathfinder SII's shareholding meets the relevant threshold at the time of listing application and on average (i.e. 12-month average of the shareholding as of each month-end) throughout the pre-application 12-month period; and

(ii) **Temporary dilution pending top-up investment:** Where (i) the Pathfinder SII's shareholding is diluted due to investments made by other investors during the pre-application 12-month period; (ii) the relevant Pathfinder SII (or in the case of the aggregate threshold referred to in paragraph 26(i)(a)(1), at least one Pathfinder SII within the group) has committed irrevocably to top up its investment before the listing application by an amount that would have resulted in the Pathfinder SII meeting the relevant indicative benchmark as at the date of listing application had such top-up been completed; and (iii) the top-up will be completed before the date of listing.

30. The timing of investments by the Pathfinder SIIs should be determined by reference to the date of irrevocable settlement.

31. The Exchange will consider on a case-by-case basis whether investments in an applicant held by different funds managed by the same fund manager, or by different entities wholly-owned by the same investor, can be aggregated as investments made by one Pathfinder SII for the purpose of the indicative benchmarks referred to in paragraph 26(i). Non-exhaustive factors that the Exchange will take into account include the shareholding structure of the investor entities, and how investment decisions are made[11].

Indicative benchmark for sophisticated independent investors' investments

32. For the purpose of the benchmark on aggregate investment set out in paragraph 26(ii) ("**Aggregate Investment Benchmark**"):

(i) The Exchange will count investments by sophisticated independent investors made before listing, and any offer shares issued to sophisticated independent investors at the time of listing (whether or not those investors held securities in the Specialist Technology Company before listing) towards the Aggregate Investment Benchmark; and

(ii) Where investments by sophisticated independent investors made before listing and cornerstone investments made by sophisticated independent investors are insufficient to satisfy the Aggregate Investment Benchmark, the Exchange may allow an applicant to proceed to listing on the condition that sufficient offer shares would be allocated to sophisticated independent investors participating as placees under the placing tranche to satisfy the Aggregate Investment Benchmark ("**SII Placees**"), in which case the applicant, the OC and the sponsor should provide an undertaking in this regard and such undertaking should be disclosed in the listing document.

In such cases:

(a) The Exchange will only accept placees that clearly fall within the illustrative examples of the sophisticated independent investors (as set out in paragraph 21). To avoid any delay to listing, where an applicant plans to rely on an allocation to be made to a sophisticated independent investor which is a key market participant (as referred to in paragraph 21(iv)), the applicant must submit the relevant information on such sophisticated independent investor to which it intends to

[11] For example, where different fund managers share the same general partner that exercises direct control, or other substantial control (e.g. through the exercise of veto rights) over all investment decisions of the funds pursuant to the relevant fund agreements and/or documents, aggregation may be accepted.

allocate offer shares as placee for the above purpose well in advance so that the Exchange can have sufficient time to assess whether such placee may be regarded as a sophisticated independent investor; and

(b) The applicant must confirm in the allotment results announcement that the investments from all sophisticated independent investors have met the Aggregate Investment Benchmark, and disclose in the same announcement the identities of the SII Placees, the number of shares held by them and other relevant information of the SII Placees as required to be disclosed under paragraph 25 to substantiate that they have the relevant investment experience, knowledge and expertise to be considered sophisticated. This information should be given as of a date that is no more than six months prior to the date of listing.

Secondary/Dual listings

33. For applicants listed on other stock exchanges applying to list under MB Chapter 18C, the Exchange acknowledges the possibility that the shareholding of sophisticated independent investors at the relevant times (e.g. the time of the MB Chapter 18C listing application) may not strictly comply with the indicative benchmarks set out in paragraph 26.

34. In assessing whether such an applicant has received meaningful investments from sophisticated independent investors, the Exchange will consider, on a case-by-case basis, the specific circumstances of the applicant, including, without limitation, the shareholding of sophisticated independent investors before and at the time of the applicant's overseas listing and at the time of the MB Chapter 18C listing application.

E. Path to Achieving Revenue Requirement

35. The Exchange will retain the discretion to determine whether the evidence provided by a Pre-Commercial Company to demonstrate a credible path to the commercialisation of its Specialist Technology Product that will result in it achieving the revenue requirement for a Commercial Company is satisfactory. For this purpose, a Pre-Commercial Company applicant must also:

(i) Explain and disclose, in detail, the timeframe for, and impediments to, achieving the revenue requirement for a Commercial Company; and

(ii) To the extent that its working capital (after taking into account the listing proceeds) is insufficient to meet its needs before it achieves the revenue requirement for a Commercial Company, describe the potential funding gap and how it plans to further finance its path to achieving such revenue requirement after listing.

36. Pre-Commercial Companies should exercise caution when disclosing the timeframe for, and the path to, achieving the revenue requirement for a Commercial Company, and clearly disclose the relevant risks, impediments and underlying material assumptions involved in making such statements as appropriate to ensure the disclosures are not misleading.

Examples

37. Non-exhaustive examples of a credible path for Pre-Commercial Companies to achieving the revenue requirement for a Commercial Company include:

(i) Binding contracts or non-binding framework agreements, with reasonably sufficient details on the timeframe and milestones for commercialisation, in respect of the Specialist Technology Product that the applicant has in place; and

(ii) Such binding contracts or non-binding framework agreements being arranged with a reasonable number of independent customers for the development, testing or sales of the Specialist Technology Product, with a substantial potential aggregate contract value realisable within 24 months from the date of listing. The Exchange may, under exceptional circumstances, accept that a credible path is demonstrated by a binding contract or non-binding framework agreement with an expected timeframe of more than 24 months, in which case an independent customer engaged in such arrangement must also be a highly reputable customer.

38. For the purpose of paragraph 37:

(i) The independence of a customer will be determined as at the date of signing of the relevant contract or framework agreement with an applicant and up to listing. The Exchange will apply the same criteria as those used for assessing the independence of a sophisticated independent investor (see paragraphs 18 and 19 above) in assessing the independence of a customer; and

(ii) The Exchange will assess whether a customer is a "highly reputable customer" on a case-by-case basis taking into account all relevant facts and circumstances of an applicant and the relevant Specialist Technology Industry and market. For illustrative purposes only, the Exchange would generally consider the following as examples of a "highly reputable customer":

(a) A key market participant in the relevant upstream or downstream industry with meaningful market share and size, as supported by appropriate independent market or operational data; or

(b) A State or State corporation as defined under MB Rule 1.01.

39. The factors referred to in paragraphs 37 and 38 are non-exhaustive examples. If the aggregate value of the contracts or agreements that an applicant has entered into is insufficient to achieve the revenue requirement for a Commercial Company or otherwise does not meet all the requirements as set out in paragraphs 37 and 38, a Pre-Commercial Company applicant should describe how it plans to achieve the revenue requirement for a Commercial Company in the listing document.

40. A Pre-Commercial Company applicant may demonstrate its path to achieving the revenue requirement for a Commercial Company through other means with alternative evidence if the examples of the "credible path" in relation to the binding contracts or non-binding framework agreements described in paragraph 37 do not suit the Pre-Commercial Company's circumstances. For Pre-Commercial Companies targeting retail customers, with whom they may not directly enter into contracts, a credible path to achieving the revenue requirement for a Commercial Company could be demonstrated, for example, by reference to the number of retail customers indicating their interests in the applicant's Specialist Technology Product, as supported by appropriate evidence such as confirmed orders.

41. The Exchange will adopt a holistic approach taking into account all the information provided and all relevant circumstances to determine whether it is satisfied that the Pre-Commercial Company has demonstrated a credible path to achieving the revenue requirement for a Commercial Company as required under, and retains the discretion to determine whether the evidence provided by a Pre-Commercial Company applicant satisfies the requirement of, MB Rule 18C.06.

F. Minimum Allocation to Independent Price Setting Investors

42. At least 50% of the total number of shares offered in the initial public offering (excluding any shares to be issued pursuant to the exercise of any offer size adjustment option and/or over-allotment option) of a Specialist Technology Company must be taken up by independent price setting investors in the placing tranche (whether as Cornerstone Investors or otherwise).

43. Independent price setting investors are determined as follows:

Independent price setting investors

(i) Institutional Professional Investors[12]; and

(ii) Other types of investors with AUM, fund size or investment portfolio[12] size of at least HK$1 billion.

Excluding

(a) An existing shareholder of the applicant, or a close associate of such an existing shareholder; or

(b) A core connected person of the applicant.

44. A fund managed by a fund manager, or a wholly-owned subsidiary of such entity, that has AUM of an amount that meets the threshold set out in paragraph 43(ii) would qualify as an independent price setting investor.

45. In the case of a Specialist Technology Company listing by way of a De-SPAC Transaction, at least 50% of the total number of shares issued by the Successor Company as part of the De-SPAC Transaction (excluding any shares issued to the existing shareholders of the De-SPAC Target as consideration for acquiring the De-SPAC Target) must be taken up by independent price setting investors.

46. In the case of a Specialist Technology Company listing by introduction under MB Chapter 7, the Exchange will take a holistic approach and consider granting waivers, on a case-by-case basis, from the requirement under MB Rule 18C.08 if the applicant is able to demonstrate that it is expected to meet the applicable minimum market capitalisation at the time of listing under MB Rule 18C.03(3), having regard to non-exhaustive factors such as its investor base and historical trading price and turnover (for at least a six-month period) on another stock exchange with sufficient liquidity and a large investor base, where applicable.

G. Liquidity Arrangements

47. Irrespective of whether their listings in Hong Kong are accompanied by an offer, applicants with securities listed on another stock exchange (which are, or represent, shares in the same class as the shares for which listing is sought on the Exchange) must have due regard to whether there will be an open market in the securities for which listing is sought and, where necessary, must make appropriate arrangements to facilitate the liquidity of their shares to meet Hong Kong market demand.

[12] See MB Rule 18B.01 for the definition of Institutional Professional Investors and paragraph 22 of this chapter for the definition of "investment portfolio".

48. This is to ensure that the trading of the securities for which listing is sought is conducted in a fair and orderly manner and in the case of a listing accompanied by an offer, this will also be one of the factors that the Exchange will take into account when assessing whether the size of the offer may give rise to orderly market concerns.

49. In addition, Specialist Technology Companies seeking to list by introduction must continue to comply with existing guidance on liquidity arrangements to meet Hong Kong market demand during the initial period of listing[13].

H. Disclosures

50. A Specialist Technology Company must disclose in its listing document any information required by the Exchange that is due to it being a Specialist Technology Company.

51. The following guidance for Specialist Technology Companies supplements the guidance which the Exchange has published relating to disclosure in listing documents applicable to all applicants. A listing document of a Specialist Technology Company that does not follow this guidance may be considered not substantially complete as required under the MB Rules and may be returned.

52. In view of the complexity and technicality involved in Specialist Technology Companies' businesses, applicants are encouraged to use diagrams or flowcharts to explain their business models, Specialist Technology Products and key non-Specialist Technology Products. They are also reminded to present fair, balanced and accurate information to potential investors.

53. In addition to the information specifically required under the MB Rules and this chapter, a Specialist Technology Company must disclose all relevant information in its listing document to demonstrate that it meets the definition of a Specialist Technology Company, the suitability and eligibility criteria and the requirements for listing as set out in MB Chapter 18C and this chapter.

54. Non-exhaustive examples of such disclosures include: (a) the Specialist Technology Industry and the acceptable sector (as referred to in "A. Specialist Technology Industries" above) that it falls within; and (b) the identity, timing of investment, shareholding and/or investment amount (where applicable) of the relevant sophisticated independent investors for the purpose of the third party investment requirements (as referred to in "D. Third Party Investment" above).

55. The following disclosure should also be made in the listing document, where applicable:

Pre-IPO investments	(i) In addition to the existing disclosure requirements on pre-IPO investments[14], an applicant should also disclose the implied pre-money and post-money valuations of each round of pre-IPO investment in a table. (ii) Reasons for material fluctuations in valuation (a) as compared to the immediate previous round of pre-IPO financing; and (b) between the proposed IPO valuation and the valuation in the latest round of pre-IPO financing, such as key development of the products and business milestones.

[13] See **Chapter 4.12** and any other relevant guidance as implemented by the Exchange from time to time for guidance on liquidity arrangements for issuers seeking to list by introduction where the securities to be listed are already listed on another stock exchange.

[14] See **Chapter 4.2** and any other relevant requirements as implemented by the Exchange from time to time for guidance on pre-IPO investments.

Burn rate	Disclose in the "Summary" section and other relevant sections: (i) *Historical burn rate* - the burn rate throughout the track record period, with the basis for determination and reasons for any substantial expenditure explained. (ii) *Future burn rate* - (a) A reasonable period of time, with basis, that the applicant can maintain its viability with existing cash balance and the IPO proceeds. (b) When the applicant expects to raise its next round of financing based on the burn rate. (c) Assumptions in relation to the future burn rate, which should be reasonable taking into account specific facts and circumstances.
Cash operating cost	(i) *Historical cash operating cost* - disclose an estimate of cash operating costs, including costs relating to R&D incurred in the development of the Specialist Technology Products and costs associated with: (a) Workforce employment; (b) Direct production costs, including materials (if it has commenced production); (c) R&D; (d) Product marketing (if any); (e) Non-income taxes, royalties and other governmental charges (if any); (f) Contingency allowances; and (g) Any other significant costs. *Note: A Specialist Technology Company must:* *1. Set out the components of cash operating costs separately by category;* *2. Explain the reason for any departure from the list of items to be included under cash operating costs; and* *3. Discuss any material cost items that should be highlighted to investors.* (ii) *Future cash operating cost* - highlight in the "Summary" section any expected material increase in costs or expenses (e.g. R&D expenses and marketing expenses in connection with its products/services) during the period covered by the working capital forecast.

Products	(i) In the "Summary" section, a clear and accurate summary of its key Specialist Technology Product. (ii) For each Specialist Technology Product (including those in the pipeline or not yet commercialised), the existing stage and development timetable of the Specialist Technology Product (e.g. whether it is still in the prototype or testing stage, or it is conducting demonstrations in a controlled and real-world environment and close to delivering the final Specialist Technology Product), which should be presented in a fair and balanced manner and without favourable possibilities being presented as certain or as more probable than is likely to be the case. (iii) Technical capabilities and commercial viability of the key technology applied to the Specialist Technology Product. (iv) Origins (i.e. in-licensing or internally developed) and the jurisdiction rights of the intellectual property pertaining to the key Specialist Technology Product.
Disclosure on commercialisation status and prospects	(i) Overview of the commercialisation status and the commercialisation plan of the Specialist Technology Products. (ii) With respect to each key Specialist Technology Product: (a) Elaborate on the commercialisation status, impediments to commercialisation and the future commercialisation plan; and (b) Substantiate its commercialisation plan, with details of contracts, orders and/or letters of intention (if any) to illustrate revenue visibility, or an appropriate negative statement if there is no contract, order or letter of intention.
Addressable market, market share and industry overview	(i) With respect to each key Specialist Technology Product, define its respective addressable markets (including the current addressable market and the expected addressable market for a reasonable future period), and the current and expected market shares, in each case, in accordance with (ii) and (iii) below, together with the basis for determination, to provide information on the applicant's market position within the relevant industry. (ii) *Current and expected addressable markets* (a) Define both the current and expected addressable markets (e.g. by reference to a limited pool of customers using the products/services rather than only the overall market), and disclose material information of such markets (e.g. size, value, assumed growth rates in prices and quantities, and comparable products/services in the target market and other markets).

	(b) Competitive landscape of the key Specialist Technology Product and, to the extent applicable, include the following information of the competing or potentially competing commercialised or pipeline products/services: (1) the name and price (including similar products/services launched in other jurisdictions and factors that may affect pricing in the target market); (2) expiration dates of key intellectual property rights; (3) technologies; and (4) addressable markets. (c) Substantiate any statements that the applicant's products/services are likely to be more competitive or better. (iii) *Current and expected market share* (a) Basis for determination of the current and expected market shares. (b) The expected market share can be provided on a qualitative basis by reference to its expected competitive landscape, and should be provided for a reasonable future period, with all relevant risks, impediments and assumptions clearly disclosed.
Business model	(i) In the "Summary" and "Business" sections, business model of the applicant which can be one of the following, or a combination of them, and/or other business models: (a) Subscription-based model (b) Transaction-based model (ii) For each key Specialist Technology Product from which the applicant has recorded sales during and after (if applicable) the track record period, the key metrics relevant to its business model. Non-exhaustive examples include: (a) *For subscription-based companies*: total number of subscribers, total number of paying subscribers, total number of new subscribers, total customer acquisition cost ("**CAC**"), customer retention rate[15] and net dollar retention rate[16]. (b) *For transaction-based companies*: total number of customers, total number of new customers, total CAC, number of transactions, average transaction value, customer retention rate and net dollar retention rate. (iii) Present the key metrics disclosed by reference to regular intervals, with the basis for determination and reasons for material fluctuations (if any) explained.

[15] Customer retention rate refers to the percentage of customers for the immediately preceding year which remained to be the company's customers for the current year.

[16] Net dollar retention rate refers to the ratio of revenue contribution of a customer group in the immediately preceding year to the revenue contribution of the same group of customers for the current year.

R&D expenditure, experience and specific risks	(i) A detailed breakdown of its R&D expenditure for each of the three financial years prior to listing, showing the amounts incurred by category and by the Specialist Technology Product to which the R&D expenditure corresponds. (ii) The size, experience, qualifications and areas of specialisation of the R&D team, and how long they have been working on similar products/services. (iii) The percentage of IPO proceeds to be spent on R&D. (iv) The stage of R&D for key Specialist Technology Products in the pipeline or not yet commercialised. (v) Details of the Specialist Technology Company's R&D experience in the relevant Specialist Technology Industry and acceptable sector, including: (a) Details of its operations in R&D; (b) The collective expertise and experience of key management and technical staff; (c) The proportion of R&D performed in-house (i.e. within the applicant's group), as opposed to R&D outsourced to, or in collaboration with, external third parties and the R&D progress made by the applicant on any key Specialist Technology Product that are in-licensed or acquired. Details of any outsourced/collaborative R&D arrangements, including the calibre and experience of outsourced/collaborating parties, the material terms of the relevant arrangements, who will have ownership of intellectual property rights and the applicant's involvement and role in the R&D activities under the arrangements; (d) The relevant experience of the key persons referred to in MB Rule 18C.14(1) in the R&D, manufacturing and commercialisation of the relevant Specialist Technology Product; (e) The salient terms of any service agreements between the applicant and its key management and technical staff; (f) Measures (if any) that the applicant has in place to retain key management or technical staff (e.g. incentivisation arrangements and/or non-compete clauses), and the measures and arrangements that the applicant has in place, in the event of the departure of any of its key management or technical staff; and (g) Statement of any legal claims or proceedings that may have an influence on its R&D for any key Specialist Technology Product.

Industry standards/ competent authority requirements	(i) Details of any applicable industry-specific standards, definitions or classifications (e.g. for autonomous vehicles, the level of automotive automation defined by the relevant industry association), and the basis for determination; and whether the applicant's key Specialist Technology Product have met such standards, definitions or classifications. (ii) Details of any relevant regulatory approval required and/or obtained for each key Specialist Technology Product, and a statement that no material unexpected or adverse changes have occurred since the date of issue of the relevant regulatory approval for a key Specialist Technology Product (if any). Where there are material changes, these must be prominently disclosed. (iii) If applicable, a summary of material communications with the relevant competent authority in relation to its Specialist Technology Product, and the results of such communications. (iv) If applicable, all material safety data relating to its Specialist Technology Product, including any serious adverse events.
Risks	(i) Specific risks, general risks and dependencies, including the extent to which the applicant's business is dependent on key individuals and the impact of the departure of key management or technical staff on the applicant's business and operations. (ii) If relevant and material to the Specialist Technology Company's business operations, information on project risks arising from environmental, social, and health and safety issues.
Intellectual property	(i) Details of any material intellectual property right granted and/or applied for in relation to each key Specialist Technology Product, or an appropriate negative statement. (ii) With respect to material intellectual property rights: (a) Include in the "Summary" section such intellectual property rights; (b) The tenure and material payment obligations associated with such intellectual property rights and residual intellectual property rights, and whether such rights are in-licensed or self-owned; and (c) To the extent that any material intellectual property right is in-licensed, a clear statement of the applicant's material rights and obligations under the applicable licensing agreement. (iii) Details and significance of material intellectual property rights in relation to each key Specialist Technology Product, including: (a) The part of the relevant Specialist Technology Product to which the material intellectual property right is attributing or protecting (e.g. whether key technology or product packing); and

	(b) The extent and form to which such intellectual property is protected (e.g. whether patent is in the process of application, or patent has already been registered, procedures put in place to protect intellectual property rights not registered or not in the process of registration). (iv) Highlight any risk of intellectual property right infringements in the "Summary" and "Risk Factors" sections, and disclose a positive statement by the directors (supported by the sponsor's due diligence) as to whether the applicant had any instances of infringement of third parties' intellectual property rights and, if so, the relevant details and potential impact on the applicant's operation.
Warning statement	The following warning statement that must be prominently and legibly displayed on the front cover or inside front cover of the listing document: "*The issuer is a Specialist Technology Company (as defined in Chapter 18C of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited). The securities of Specialist Technology Companies carry high investment risks including risks of share price volatility and inflated valuation due to the difficulty in valuing such companies. Investors should fully understand the investment risks of a Specialist Technology Company and the risks disclosed by the issuer before making their investment decisions*."
Additional disclosures for Pre-Commercial Companies	In addition to the disclosures required in paragraph 35 of this chapter, a Pre-Commercial Company is required to disclose, in the listing document: (i) The stage of R&D for each of its Specialist Technology Product. (ii) Development details by key stages and milestones for its key Specialist Technology Product to meet the revenue requirement for a Commercial Company. In defining the key stages and milestones, make reference to the industry-specific standards, definitions or classifications in defining the key stages and milestones, and the relevant regulatory approval required, as disclosed by reference to "Key area – Industry standards/competent authority requirements" above. In the absence of such requirements, a Pre-Commercial Company should define its own stages and milestones that are appropriate for its relevant industry. (iii) All relevant risks associated with the commercialisation of each of its key Specialist Technology Product. (iv) Prominently and legibly display the following additional warning statement on the front cover or inside front cover, following the warning statement referred to in "Key area – Warning statement" above: "*In addition, the issuer is a Pre-Commercial Company (as defined in Chapter 18C of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited). Pre-Commercial Companies are Specialist Technology Companies that cannot meet the revenue requirement as set out in Rule 18C.03(4), and so are subject to a higher risk of corporate failure if they are unable to secure sufficient external funding and/or cannot generate sufficient revenue to sustain their operations after listing.*"

(v) The potential earlier expiry of the lock-up periods applicable to the relevant shareholders in the case of the removal of designation as a Pre-Commercial Company.

I. Subscription of Shares by Existing Shareholders

56. Given the likely significant funding needs of Specialist Technology Companies and the importance of existing shareholders in meeting the funding needs of these companies, existing shareholders and/or its close associates may participate in the IPO of a Specialist Technology Company provided that the applicant complies with MB Rules 8.08(1)/19A.13A, 18C.08 and 8.08A/19A.13C.

57. For the avoidance of doubt, the Existing Shareholders Conditions in **Chapter 4.15** do not apply to Specialist Technology Companies. Instead, the following applies:

(i) An existing shareholder holding 10% or more of the shares in the Specialist Technology Company prior to IPO must subscribe for shares in the IPO as a Cornerstone Investor; and an existing shareholder holding less than 10% of the shares in the Specialist Technology Company prior to IPO may subscribe for shares in the IPO as either a Cornerstone Investor or a placee:

(a) In the case of subscription as a placee, the applicant and its sponsors must confirm that no preference in allocation was given to the existing shareholder; and

(b) In the case of subscription as a Cornerstone Investor, the applicant and its sponsors must confirm that no preference was given to the existing shareholder other than the preferential treatment of assured entitlement at the IPO price and the terms are substantially the same as other Cornerstone Investors.

58. In addition to paragraph 57 above, an existing shareholder who wishes to exercise a contractual anti-dilution right (if any) to subscribe for shares in the IPO should comply with the existing requirements under "*Anti-dilution rights*" of paragraph 13 of **Chapter 4.2**. For the avoidance of doubt, such existing shareholder may subscribe for further IPO shares to a level higher than his/her pre-IPO shareholding provided that MB Rules 8.08(1)/19A.13A, 18C.08 and 8.08A/19A.13C are met.

59. Where allocations will be made to core connected persons, the Specialist Technology Company must apply for, and the Exchange will ordinarily grant, a related MB Rule 9.09 waiver, if applicable.

J. Specialist Technology Company with a WVR Structure

60. The Exchange presumes a MB Chapter 18C applicant fully meeting the requirements under MB Chapter 18C to have satisfied (i) the Innovative Company Requirements and shall qualify as an innovative company for the purpose of MB Chapter 8A; and (ii) the external validation requirement under **Chapter 2.2**. However, such applicant seeking to list with a WVR structure under MB Chapter 8A shall remain subject to all other applicable requirements under **Chapter 2.2** and MB Chapter 8A.

K. Stock Marker

61. The listed securities of a Pre-Commercial Company will be assigned a special stock short name marker that ends with the marker "P".

L. Lock-up Periods

Key persons

62. An applicant must identify, and disclose the basis for its determination of, the "key personnel responsible for the Specialist Technology Company's technical operations and/or the R&D of its Specialist Technology Product(s)". Such key personnel should be subject to restrictions on disposal of its interest in the applicant.

63. The following are examples of, and the factors to be considered in determining whether a person is, a key personnel:

Examples	Considerations
(i) Head and key personnel of the R&D department whose expertise is primarily relied upon by the applicant for the development of the Specialist Technology Product	(a) Shareholding of such personnel
(ii) Lead developer of the core technologies in relation to the Specialist Technology Product	(b) His/her remuneration relative to other R&D staff
	(c) His/her seniority

64. The Exchange may request an applicant to provide supporting documentation to substantiate the basis on which such key persons have been identified. The Exchange may also deem any person to be a key person based on the facts and circumstances of an individual case.

Existing investors

65. MB Rule 18C.14(2) states that "such existing investors in a Specialist Technology Company as identified by the Exchange in guidance published on the Exchange's website, as amended from time to time", are subject to the restrictions on the disposal of securities under that MB Rule.

66. The lock-up restrictions of MB Rule 18C.14(2) only apply to such investors identified as the Pathfinder SIIs that satisfy the indicative minimum investment benchmarks as set out in paragraph 26(i) above. If an applicant has more than the required number of sophisticated independent investors that meet the minimum investment benchmarks for Pathfinder SIIs as set out in paragraph 26(i) above, it would be free to decide, on a commercial basis, which of these investors are to be designated as the Pathfinder SIIs, who will then be subject to the lock-up restrictions under MB Rule 18C.14(2).

Disclosure of shareholding

67. A Specialist Technology Company must disclose in its interim (half-yearly) and annual reports the total number of securities in the issuer held by each of the persons (as identified in the listing document) that are subject to the lock-up requirements under MB Rule 18C.13 or 18C.14, based on information that is publicly available to the issuer or otherwise within the knowledge of its directors, as at the LPD prior to the issue of the relevant report, for so long as the relevant person remains as a shareholder.

68. A Specialist Technology Company must disclose the total number of securities in the issuer held by each of the persons referred to in paragraph 66 above who are employed by the applicant as at the LPD prior to the issue of the relevant interim and annual reports, as such information is expected to be within the knowledge of its directors.

M. Applicability of Percentage Ratios

69. Since Specialist Technology Companies listed under MB Chapter 18C are not required to meet any of the financial eligibility tests under MB Rule 8.05(1), 8.05(2) or 8.05(3) at the time of listing [17], they may not have recorded any profit (and in the case of Pre-Commercial Companies, they may not have recorded any revenue). Accordingly, the application of the revenue ratio and the profit ratio to any proposed transaction that these issuers propose to undertake may not be appropriate in some cases.

70. The Exchange may exercise its discretion under MB Rule 14.20 to disregard the revenue ratio and the profit ratio (where applicable) for any Specialist Technology Company listed under MB Chapter 18C and consider other relevant indicators of size, including industry-specific tests suggested by the issuer, on a case-by-case basis. The listed issuer must provide alternative tests which it considers appropriate to the Exchange for consideration.

[17] For the avoidance of doubt, a Specialist Technology Company which is able to meet the financial eligibility requirements under MB Rule 8.05 cannot apply to list under MB Chapter 18C.

Appendix

Example 1

R&D expenditure ratio calculation (Pre-Commercial Company)

Company A is a Pre-Commercial Company (with revenue of less than HK$150 million for the most recent audited financial year) seeking to list on the Main Board pursuant to MB Chapter 18C. The applicable minimum R&D expenditure ratio is 50% under MB Rule 18C.04(2)(c). The consolidated statements of profit or loss of Company A and the capital expenditures incurred for the three financial years prior to listing are as follows:

Consolidated statements of profit or loss	**Year 1 HK$'millions**	**Year 2 HK$'millions**	**Year 3 HK$'millions**
Revenue	**-**	**-**	**120**
Cost of sales	-	-	(54)
Gross profit	**-**	**-**	**66**
Selling and marketing expenses	-	-	(13)
General and administrative expenses	(320)	(348)	(395)
R&D expenses	(236)	(264)	(450)
Loss from operations	**(556)**	**(612)**	**(792)**
Finance costs	(17)	(18)	(19)
Loss before tax	**(573)**	**(630)**	**(811)**
Income tax expense	-	-	-
Loss for the year	**(573)**	**(630)**	**(811)**

Capital expenditures incurred	**Year 1 HK$'millions**	**Year 2 HK$'millions**	**Year 3 HK$'millions**
Acquisition of R&D centre (fixed asset) [1]	200	-	-
R&D equipment acquired and capitalised (fixed asset)[1]	65	85	25
Intangible asset acquired from third parties and capitalised[2]	120	30	-
Internal development costs capitalised as intangible asset[2]	20	30	-
	405	**145**	**25**

Note 1: The depreciation expense of these fixed assets is included in R&D expenses.
Note 2: The amortisation of these intangible assets began at the beginning of year 3 for R&D activities with annual amortisation expense of HK$40 million (included in the line item "R&D expenses").

Computation of R&D expenditure ratios

Step 1: Compute the annual and total R&D expenditure for the trading record period

	Year 1 HK$'millions	Year 2 HK$'millions	Year 3 HK$'millions
R&D expenses	236	264	450
Adjustments:			
Add: intangible asset acquired from third parties and capitalised	120	30	-
Add: internal development costs capitalised as intangible asset	20	30	-
Less: amortisation expense of capitalised intangible assets included in R&D expenditure	-	-	(40)
Annual R&D expenditure (A)	**376**	**324**	**410**
Total R&D expenditure for the three financial years prior to listing (HK$'millions) (B)			**1,110**

Step 2: Compute the annual and total operating expenditure for the trading record period

	Year 1 HK$'millions	Year 2 HK$'millions	Year 3 HK$'millions
R&D expenses	236	264	450
Selling and marketing expenses	-	-	13
General and administrative expenses	320	348	395
Adjustments:			
Add: intangible asset acquired from third parties and capitalised	120	30	-
Add: internal development costs capitalised as intangible asset	20	30	-
Less: amortisation expense of capitalised intangible assets included in R&D expenditure	-	-	(40)
Annual R&D expenditure (C)	**696**	**672**	**818**
Total R&D expenditure for the three financial years prior to listing (HK$'millions) (D)			**2,186**

Step 3: Compute the annual and total R&D expenditure ratio for the trading record period

		Year 1	Year 2	Year 3
Annual R&D expenditure ratio	**(A)/(C)**	**54%**	**48%**	**50%**
Total R&D expenditure ratio	**(B)/(D)**		**51%**	

Conclusion:

As the annual R&D expenditure ratio of at least two of the three financial years is at least 50% and the total R&D expenditure ratio over the three-year track record period is also at least 50%, Company A can meet the R&D expenditure ratio requirement for a Pre-Commercial Company under MB Rule 18C.04(2)(c).

Example 2

R&D expenditure ratio calculation
(Commercial Company)

Company B is a Commercial Company seeking to list on the Main Board pursuant to MB Chapter 18C. The applicable minimum R&D expenditure ratio is 15% under MB Rule 18C.04(2)(a). The consolidated statements of profit or loss of Company B and the capital expenditures incurred for the three financial years prior to listing are as follows:

Consolidated statements of profit or loss	**Year 1 HK$'millions**	**Year 2 HK$'millions**	**Year 3 HK$'millions**
Revenue	**100**	**120**	**290**
Cost of sales	(70)	(84)	(203)
Gross profit	**30**	**36**	**87**
Selling and marketing expenses	(75)	(89)	(116)
General and administrative expenses	(51)	(63)	(78)
R&D expenses	(21)	(30)	(42)
Loss from operations	**(117)**	**(146)**	**(149)**
Finance costs	(2)	(3)	(4)
Loss before tax	**(119)**	**(149)**	**(153)**
Income tax expense	(1)	(2)	(3)
Loss for the year	**(120)**	**(151)**	**(156)**

Capital expenditures incurred	**Year 1 HK$'millions**	**Year 2 HK$'millions**	**Year 3 HK$'millions**
Acquisition of R&D centre (fixed asset) [1]	10	-	-
R&D equipment acquired and capitalised (fixed asset)[1]	7	9	3
Intangible asset acquired from third parties and capitalised[2]	5	-	-
Internal development costs capitalised as intangible asset[2]	2	3	-
	24	**12**	**3**

Note 1: The depreciation expense of these fixed assets is included in R&D expenses.
Note 2: The amortisation of these intangible assets began at the beginning of year 3 for R&D activities with annual amortisation expense of HK$2 million (included in the line item "R&D expenses").

Computation of R&D expenditure ratios

Step 1: Compute the annual and total R&D expenditure for the trading record period

	Year 1 HK$'millions	Year 2 HK$'millions	Year 3 HK$'millions
R&D expenses	21	30	42
Adjustments:			
Add: intangible asset acquired from third parties and capitalised	5	-	-
Add: internal development costs capitalised as intangible asset	2	3	-
Less: amortisation expense of capitalised intangible assets included in R&D expenditure	-	-	(2)
Annual R&D expenditure (A)	**28**	**33**	**40**
Total R&D expenditure for the three financial years prior to listing (HK$'millions) (B)			**101**

Step 2: Compute the annual and total operating expenditure for the trading record period

	Year 1 HK$'millions	Year 2 HK$'millions	Year 3 HK$'millions
R&D expenses	21	30	42
Selling and marketing expenses	75	89	116
General and administrative expenses	51	63	78
Adjustments:			
Add: intangible asset acquired from third parties and capitalised	5	-	-
Add: internal development costs capitalised as intangible asset	2	3	-
Less: amortisation expense of capitalised intangible assets included in R&D expenditure	-	-	(2)
Annual R&D expenditure (C)	**154**	**185**	**234**
Total R&D expenditure for the three financial years prior to listing (HK$'millions) (D)			**573**

Step 3: Compute the annual and total R&D expenditure ratio for the trading record period

		Year 1	Year 2	Year 3
Annual R&D expenditure ratio	**(A)/(C)**	**18%**	**18%**	**17%**
Total R&D expenditure ratio	**(B)/(D)**		**18%**	

Conclusion:

As the annual R&D expenditure ratio of at least two of the three financial years is at least 15% and the total R&D expenditure ratio over the three-year track record period is also at least 15%, Company B can meet the R&D expenditure ratio requirement for a Commercial Company under MB Rule 18C.04(2)(a).

2.6 MINERAL COMPANIES

1. This chapter covers matters related to Mineral Companies, including (i) disclosure requirement in a listing document; (ii) application of MB Rule 18.04; (iii) the Competent Person's Report ("**CPR**") in a listing document and CPR related waivers; and (iv) adoption of alternative reporting standard and other disclosure matters for Petroleum Resources and Reserves.

Guidance on Disclosure

2. A listing document should include the following:

Summary	(i) An overview of the Mineral or Petroleum Assets, including the location, main products and by-products generated; (ii) A summary of the Reserves, Resources and/or exploration results by category under a Reporting Standard, the grade and quality of the applicant's Natural Resources with reference to applicable industry standards; (iii) The mining method, the life of the mines/oilfields, the current status and future development plan, the access of mines/oilfields to major transportation networks, and mining rights which are pledged to secure the applicant's banking facilities or a negative statement; (iv) In table format, (a) the cash operating and production costs of the minerals or Petroleum produced as extracted from the CPR; (b) the material terms of the mining and exploration licenses such as the identity of each of the license holders, the validity period, the approved production volume, and the particular Natural Resources which the licenses are related to; and (c) the revenue, production volume, sales volume and average selling price of each major project during the track record period; and (v) Highlight the risk associated with the applicant's capital expenditure projects if the expected capital expenditure is significantly more than its IPO proceeds.
Business	*Project development* (i) Construction details by key stages (e.g. different stages of a planned development) leading to commercial production; (ii) How the applicant manages any upside or downside market developments (e.g. capital expenditure management, joint development, cost-cutting strategies and financing); (iii) Measures taken/will be taken by the applicant to address key recommendations mentioned in the CPR and the corresponding time frame; *Workflow/production* (iv) A workflow diagram for each of the major steps/processes for the applicant's business (from excavation to product delivery), with a general indication of the time involved in each step/process and whether any of the process is/will be outsourced to contractors;

(v) In table format, designed capacities, permitted production volume and actual production volume of the mines, oilfields and/or the production plants, the utilisation rates of the production plants, during the track record period, and with a commentary on material fluctuations;

(vi) The reasons and outstanding liabilities for major accidents that took place during the track record period and up to the LPD, and the internal controls to prevent recurrence of similar accidents;

Outsourcing arrangement

(vii) Material information on contractors engaged by the applicant for each major type of mining activities, including the number of contractors engaged by the applicant and total contract fees incurred during the track record period, selection criteria of the contractors and whether they are independent third parties, compliance with the relevant licensing/qualification requirements, the applicant's relevant internal control measures to ensure that the contractors comply with all applicable rules and the contractual terms (e.g. occupational health and safety, environmental protection, validity of the licenses);

Utilities

(viii) Whether utility supplies were stable and sufficient during the track record period and up to the LPD and will continue to be so for the applicant's business operations, and if not, disclose the associated risks in and measures taken to address this issue;

(ix) If utilities are not charged at market rates, explain material differences and reasons therefor;

Sales/product delivery

(x) If existing transportation infrastructure is not sufficient for the applicant's expansion, disclose the associated risks and the applicant's plans to secure sufficient access to the infrastructure;

Regulatory, environmental and social matters

(xi) A summary of all outstanding approvals and the current status of the relevant applications, any restriction on the renewal of exploration and mining permits, and the legal advisers' view (with basis) on the applicant's ability to obtain/ renew all relevant licenses, permits and approvals for the proposed exploration and mining activities;

(xii) Details of any requirement to rehabilitate the affected environment and regulations governing the provision of rehabilitation costs and reserves, how the applicant estimates the relevant provisions, and the relevant accounting treatments;

(xiii) Environmental impact of the applicant's mining/extracting activities and production processes, and measures taken/to be taken to mitigate the adverse impact and the execution time frame;

(xiv) Weaknesses and deficiencies of the applicant's environmental management policies/measures, and how and when they have been/will be addressed;

(xv) How the local community's concerns (e.g. potential pollution of local environment by the mining operation) have been addressed; and

	(xvi) Operational and financial impact of newly introduced or pending environmental regulations/programs, and the associated risks. See **Chapter 4.3** for our guidance on CG and ESG matters.
Financial information	(i) A sensitivity analysis on the impact of changes in the price of Mineral or Petroleum Assets, contracting fees, utility expenses and transportation costs, in each case if material, on the applicant's financial results during the track record period and the forecast period; (ii) A breakdown of production costs and total cash operating costs; and the major assumptions adopted for the forecast operating costs; (iii) The amounts of exploration expenses during the track record period and up to the LPD, and how they were accounted; and (iv) The expected time when a project under development becomes self-sufficient in terms of working capital and funding, and the amount of additional funding required to reach such level of self-sufficiency.
Risk assessment	(i) For disclosure of specific and general risks in the listing document under MB Rule 18.05(5), Mineral Companies should follow Guidance Note 7 to the MB Rule (GEM Practice Note 4) on risks disclosure to the extent applicable, or ensure the risks disclosed in the listing document are no less than those set out in the Guidance Note.



Reminder

The listing document, including the CPR, should (i) avoid using the word "mine" to describe a project which is at an early stage of development or exploration; and (ii) provide a benchmark for relative levels (e.g. high/low/best estimates) for Reserves and Resources.

Exemption under Rule 18.04

3. In light of the highly capital intensive nature of the mining industry and the relatively long development curve, applicants (especially those that are in their early years of development) may not be able to meet the eligibility requirements under MB Rule 8.05 (i.e. financial eligibility, management continuity and ownership and control requirements). An applicant can rely on the exemption under MB Rule 18.04 if it can demonstrate, together with disclosure of details in the listing document, that it has a clear path to commercial production and the management has relevant experience[1]:

[1] The applicant must disclose in the listing document details of the plan to provide investors with sufficient information. The Exchange has rejected Mineral Companies that failed to demonstrate that they had a clear path to commercial production to qualify for the exemption pursuant to MB Rule 18.04 (see **Annex A.12**).

Conditions	
Clear path to commercial production	(i) Conducted exploration and/or development activities on its mining assets during the track record period ("**Pre-production Assets**"); × It means that if all the mining assets were under production throughout the track record period, an applicant cannot satisfy this condition, and is required to comply with the MB Rule 8.05 requirements. (ii) Pre-production Assets must comprise a meaningful portfolio (in terms of quality and quantity) of Resources and Reserves; and (iii) Present a detailed plan, with reasonable assumptions, to achieve profitable commercial production for the Pre-production Assets. In assessing the feasibility of the plan, the following factors will be considered: (a) Life of the mine, project payback period and stage of development/ production of the Pre-production Assets; (b) Competent Person's view on adequacy and reasonableness of the applicant's mine plan, production schedule, Pre-feasibility Study; (c) Commodity price and demand for the applicant's products (e.g. binding commitment from customers); (d) Estimate of cash operating costs and cost of proposed exploration and/or development; (e) Feasibility of future fund raising (other than IPO) required to bring the project to production; and (f) Level of certainty on obtaining necessary mining permits and licenses.
Director and management experience	(i) Directors and management must have experience relevant to the exploration and/or extraction activity that the Mineral Company is pursuing. If the directors or management have experience in commodities or minerals that is different from the applicant's operations, the Exchange will consider: (a) Whether such skills are transferable to the applicant's mining activities; and (b) Relevant academic and professional qualifications, significant mining related achievements/awards, contribution to the mining industry and/or any Mineral Companies.

Competent Person's Report

4. A Mineral Company applicant must establish that it has at least a portfolio of Indicated or Contingent Resources substantiated in a CPR under MB Rule 18.05(1) (GEM Rule 18A.05(1))[2].

[2] Pursuant to MB Rule 18.24, the effective date of a CPR or Valuation Report should be the date of appraisal (i.e. the date when Resources and Reserves are estimated or valued). It should not be the date when the CPR or Valuation Report is signed.

The following information should be included in the CPR and other related sections in the listing document:

CPR	(i) The cut-off grade (which should be an industry standard commonly used), minimum mining width, economic parameters (e.g. waste to ore ratio, stope productivity), specific gravity derivation, prevailing commodity price assumptions; (ii) If the Competent Person has a different view on certain assumptions (e.g. processing recovery rate) made by the applicant, both views should be disclosed in the listing document, with differences highlighted and underlying reasons for the different views, and the impact on the applicant if the more conservative view is adopted; (iii) Detailed analysis for harmful elements identified at mines (e.g. mercury or arsenic at lead and zinc mines) to give a better picture of whether there are material concentrations of these elements within particular lodes, and the impact on the saleability of the minerals; (iv) Clear and meaningful drawings and diagrams, shown to scale, of the location of the applicant's principal Mineral or Petroleum Assets; (v) The procedures, amount of testing, assessment and time required to ascertain the amount of Reserves, and the existing Reserves of the mine over its entire mine life, expected average Resource and Reserve grades of ore that can be extracted in future years (preferably covering the whole economic life of the mine), depletion charges and hedging activities; (vi) Whether the historical or expected improved recovery rate is used for estimating the net present value ("**NPV**"), and the basis on which the discount rates are considered appropriate; (vii) If the Competent Person did not conduct a site visit, the applicant should disclose in the "Business" section of the listing document the basis on which the Reserves/Resources, cost forecasts and other data relating to the mines/ oilfields as disclosed in the CPR are arrived at, how the lack of a site visit would affect the reliability of the information, and an appropriate risk factor[3]; and (viii) All material risks mentioned in the CPR should be disclosed in the "Risk Factors" section of the listing document.

CPR Related Waivers

5. As it may be unduly burdensome and impractical for applicants to include a CPR for each and every Resource, the Exchange may waive the requirement under MB Rule 18.05(1) (GEM Rule 18A.05(1)) and allow applicants to exclude part of their mining assets in a CPR ("**Excluded Projects**") on the following basis:

   (i) The Excluded Projects are not material to the applicant's portfolio of mineral/petroleum Resource; and

   (ii) The applicant can demonstrate that the necessary information for the preparation of a CPR is not available (e.g. the mine is at early exploration stage, or the applicant does

[3] The sponsor should also submit to the Exchange the basis that the Competent Person considers unnecessary to perform verification work by conducting any facility or onsite investigation.

not have the necessary information on the relevant entities or businesses which it plans to acquire or has an option to acquire).

6. If the relevant information for the preparation of a CPR is available, an applicant must include such information in the CPR. A waiver from MB Rule 18.05(1) (GEM Rule 18A.05(1)) in such case will only be granted under special circumstances (e.g. an applicant has no intention or plan to develop a mine due to its insignificant size and lack of commercial value).



7. Applicants that obtained the above waiver are required to provide additional information in the following documents:

Listing documents	For investors to assess the potential of the Excluded Projects to be acquired and the likely benefits, disclose relevant material information, including: (i) The proposed terms of acquisitions such as the location and size of the Excluded Projects; (ii) Expected mineral quality; and (iii) Proposed purchase consideration and expected development cost.
Annual reports	Provide an update on the stage of development and the management's intention on the Excluded Projects in accordance with MB Rules 18.15 to 18.17 (GEM Rules 18A.15 to 18A.17), to enable investors to understand the progress of the acquisition/ the development of the part of the portfolio of resources that are not previously reported on by a Competent Person.
Additional CPR	Prepare and publish a CPR in accordance with the relevant requirements under MB Chapter 18 and MB Appendix D3 (GEM Chapter 18A and GEM Appendix D2) when the relevant information becomes available (e.g. when the applicant acquires the entities or businesses, or when the Excluded Projects are further developed).

Petroleum Reporting Standards

Other Codes for Petroleum Resources and Reserves

8. Pursuant to MB Rule 18.32(2) (GEM Rule 18A.32), the Exchange will consider the following factors in determining whether other codes for Petroleum Resources and Reserves will give a comparable standard of disclosure and sufficient assessment of the underlying assets ("**Alternative Codes**"):

   (i) Whether the Alternative Code is well recognised internationally and comparable to the requirements of Chapter 18 of the MB Rules (Chapter 18A of the GEM Rules). For example, it was stated in the 2009 Consultation Paper that the Canadian Standards of Disclosure for Oil and Gas Activities ("**NI 51-101**") and the U.S. Securities and Exchange Commission's Oil and Gas Disclosure Standards are globally recognised yardsticks for making oil and gas evaluations; and

(ii) The reasons of adopting the Alternative Code instead of PRMS as permitted under MB Rule 18.32 (GEM Rule 18A.32). For example, the applicant is listed on an overseas exchange or operates in a jurisdiction where the Alterative Code is a filing requirement.

Disclosure of Economic Values of Possible Reserves, Contingent Resources or Prospective Resources

9. MB Rule 18.33(6) (GEM Rule 18A.33(6)) does not allow applicants to attach economic values to Possible Reserves, Contingent Resources or Prospective Resources because the measurement of such values usually lack a widely accepted industry standard and are estimated with high level of uncertainty.

10. The Exchange has in the past granted a waiver to an applicant from MB Rule 18.33(6) because:

(i) The applicant's Petroleum Resources were located in Canada and subjected to NI 51-101, which permits disclosure of estimates of both the volumes and values of all reserves and resources, including Possible Reserves, Contingent Resources and Prospective Resources. This applicant's disclosure was in line with disclosure made by its comparable companies listed in Canada; and

(ii) The existence of the applicant's Petroleum Resources (which was oil sand) was more certain than the typical Petroleum Resources such as oil, mainly because of the abundance of oil sand in the area where it operated, and the recoverability was largely within the applicant's control as it was mainly dependent upon the applicant's commitment to develop them.

Present NPVs on Pre-tax and Post-tax Basis

11. Apart from disclosing the post-tax NPVs attributable to its Proved Reserves and Proved plus Probable Reserves (and also Possible Reserves, Contingent Resources or Prospective Resources, subject to a waiver from MB Rule 18.33(6) (GEM Rule 18A.33(6)) as stated above), an applicant may also disclose the NPVs on pre-tax basis if such disclosure is required or allowed under a widely adopted reporting standard and is in line with disclosure made by its comparable listed companies.

12. **Annex B.4** sets out the FAQs for this chapter.



3 Listing Document Disclosure



3.1 GENERAL PRINCIPLES

1. This chapter sets out the general principles on listing document disclosure and drafting.

2. When preparing a listing document, applicants and their advisers should follow the general principles under MB Rule 2.13 (GEM Rules 14.26 and 17.56) to improve investors' ability (especially due to high participation by retail investors in Hong Kong IPOs) to understand information necessary to make properly informed assessments of applicants. The general principles are that, after the sponsor's due diligence, a listing document should:

   (i) Fairly present relevant, material and specific information;

   (ii) Use plain language that is clear and easy to comprehend; and

   (iii) Be accurate and complete in all material respects and not be misleading or deceptive.

3. The Exchange encourages the use of a lead writer/editor who will be responsible for overseeing the overall structure, quality and consistency of the listing document[1].

4. Professional parties should review the listing document and structure it to focus on matters material to investors.

Listing Document Disclosure and Drafting

5. The following table provides some general guidance:

Drafting Principles and Practical Suggestions	Non-exhaustive Examples Applying Principles
(i) Fairly present relevant, material and specific information	
A. Disclose relevant, material and specific information. Too much general information may obscure information important to investors (in this regard, an	1. Disclosure such as "*Our revenue has grown significantly during the track record period, and we expect that it will continue to grow in the foreseeable future given the favourable*

[1] The lead writer/editor should review and, where necessary, amend sections produced by other participants in the IPO process, even though it is not required to write the entire document.

Drafting Principles and Practical Suggestions	Non-exhaustive Examples Applying Principles
applicant should consider whether the information is required to be disclosed under applicable laws and regulations or the Listing Rules). B. Avoid copying unnecessary/irrelevant information from other published listing documents.	*macroeconomic outlook*" does not provide insight into an applicant's past performance and prospects. The applicant should disclose the underlying reasons for its revenue growth during the track record period and discuss relevant positive and negative factors that will materially contribute to the applicant's revenue growth in the future (see **Chapter 3.11**). 2. An applicant operated a distributorship model and failed to disclose its end customer profile, a major group of which was materially and adversely impacted by a regulation published after the track record period. The applicant should disclose the end users of its products, highlight the financial contribution from the impacted end customer group during the track record period and that it expects the financial contribution from them to significantly decrease after the track record period following the new regulation. 3. An applicant operated a local business and transacted only in local currency. It also had no plans to expand overseas. A general risk factor on foreign currency exposure commonly found in other listing documents may not be relevant to the applicant (see **Chapter 3.3**).
(ii) Use plain language that is clear and easy to comprehend	
Simplify the language A. Present information in a simple and easy manner. B. Use everyday language and avoid long phrases (i.e. break up the description into separate shorter sentences). C. Only use defined or technical terms if they can improve readability. Avoid new defined terms that are not commonly used in the industry. D. Define terms in the "Definitions" or "Glossary" section and use them consistently throughout the listing document.	1. An applicant used many technical and self-defined terms to describe a complicated business model involving various parties, without explaining how each distinctive business segment correlated and/or interacted with each other. The applicant should (i) describe the applicant's business model in plain language; and (ii) explain in layman's terms how the services of each of the applicant's business segments are provided, its interaction with customers and suppliers with the aid of diagrams and flowcharts (see below). 2. An applicant reproduced the whole section on a recently promulgated regulation from the "Regulations" section in the "Summary"

Drafting Principles and Practical Suggestions	Non-exhaustive Examples Applying Principles
E. Use cross references to avoid duplication of information.	section without explaining the significance. The applicant should summarise in plain language how such regulation applies and its implications to the applicant's current and/or future business and cross-refer to the "Regulations" section (see **Chapter 3.5**).
Simplify the layout A. Use tables, bullets, diagrams and flow charts to present information. B. Use simple design and layout, same font and type size. C. Organise disclosure in a logical manner. Use descriptive headers and sub-headers (with appropriate numbering) to break up information into small digestible parts. D. Adopt a zoom-in approach (e.g. describe the business generally before detailed features and group related information together).	1. The applicant operated a platform business and generated income by providing different services to different parties in a single transaction. The applicant should illustrate the business model by using fund and business flow charts and describe the relationship between the parties involved with appropriate sub-headers (see **Chapter 3.7**). 2. An applicant described its business with multiple revenue streams and their respective revenue contributions in one lengthy and unorganised paragraph that ran on over one page. The applicant should break down the lengthy paragraph into smaller sections by first explaining the different revenue categories by types of business model, customers and products before discussing their respective revenue contributions. 3. An applicant disclosed without any details that it planned to use the net IPO proceeds to invest in key supply chain technology initiatives to enhance customer experience. The applicant should breakdown the use of proceeds earmarked for each initiative with expected timing of utilisation, in bullet or table form, in the "Use of Proceeds" section (see **Chapter 3.12**). 4. An applicant should present financial information (e.g. revenue contribution by business segment and comparison between different periods) in table form. Specifically, the financial information (including that for the stub period) must be presented in the same table together with the related MD&A in the "Financial Information" section (see **Chapter 3.11**) to the extent that such disclosure will not be misleading.

Drafting Principles and Practical Suggestions	Non-exhaustive Examples Applying Principles
(iii) Accurate and complete in all material respects and not misleading or deceptive	
A. Consider whether omission or misstatement of certain information would affect an investor's understanding of the applicant. B. Avoid emotional expression, unsubstantiated descriptions and statements that are included solely for marketing purposes. C. Do not avoid disclosing unfavourable or adverse information. D. Do not include statements that are biased, unbalanced and lack factual support.	1. An applicant disclosed that it normally provides its customers with a 30 day credit period and extends such credit period to 180 days for certain customers. However, given that the applicant in fact granted extended credit period to around half of its customers, the words "certain customers" could be misleading. It should either disclose the precise percentage of customers entitled to the extended credit period during the track record period or use other words to more appropriately disclose the situation. 2. The listing document disclosed without any elaboration that the applicant will empower their customers with "novel" and "state-of-the art" technologies; and its continuous success is because of its "superior brand". It also included a Chairman's statement with visionary language which was unsubstantiated. An applicant should avoid using emotional or purely marketing expressions. In addition, an applicant should not include marketing statements when discussing the strengths and strategies. 3. An applicant disclosed that it was the second largest player in the industry without disclosing its market share. It turned out that the largest player had a dominant position in the market, and the applicant, even being the second largest player, had a market share which was significantly smaller than the largest player. To present an accurate competitive landscape, it should disclose the market share of the largest player and its own market share to reflect its distant second position and highlight the differences in terms of scale and other key operating metrics between the largest player and itself. 4. An applicant should use precise language to avoid any misleading disclosure, e.g. where an applicant's five largest customers and suppliers for each year/period during the track record period are different entities, the applicant should disclose the revenue/purchase from the five largest customers/suppliers in *each year/period* during the track record period, accounting for

Drafting Principles and Practical Suggestions	Non-exhaustive Examples Applying Principles
	[x]%, [y]% and [z]% of the total revenue/purchases for the *respective year/period*, rather than on a combined basis in respect of the entire track record period.

Suspension of Vetting

6. The Exchange may exercise its discretion to suspend vetting. Non-exhaustive examples include:

   (i) Information in the "Summary" section (a) is almost entirely copied-and-pasted from other sections; or (b) does not explain material fluctuations of key financial or business data;

   (ii) The listing document contains extensive marketing and hyperbolic languages which may mislead or confuse investors, or includes overly emotional language or disclosure unrelated to the applicant's principal business; and

   (iii) The listing document does not comply with any of the recommended page limits for the "Summary", "Industry Overview", "Regulations" and "History and Development" sections[2].

7. Where the Exchange decides to suspend vetting, applicants will be requested to redraft relevant sections of the listing document to fully comply with the Listing Rules and this Guide before the Exchange resumes vetting. As suspension of vetting is not a return or rejection of the listing application, there is no need to upload the revised AP onto the Exchange's website and the initial listing fee will not be forfeited.

[2] See **Chapters 3.2**, **3.4**, **3.5** and **3.6**.

3.2 SUMMARY

1. The “Summary” section in a listing document should provide a concise overview of an applicant, highlight significant matters disclosed in other sections, and generally be no more than 10 pages. It should not directly reproduce paragraphs from elsewhere in the listing document.

Guidance on Disclosure

2. The table below provides some general guidance:

Business model	(i) Succinct explanation on an applicant’s principal business activities and revenue models (e.g. nature of revenue in each business segment and charging basis of the products and services), and any change in the business focus during and after the track record period. (ii) Sales/distribution channels. (iii) Unique industry features (e.g. government policies, concessions and grants, incentives and revenue recognition policies). (iv) Major development milestones.
Major stakeholders	(i) Major stakeholders (e.g. customers, distributors, suppliers, contract manufacturers, finance providers and platform users), and their relationship with the applicant or its shareholders. (ii) Details of material transactions not on normal commercial terms.
Competitive landscape	(i) Market share/ranking of key market players and the applicant, and how the applicant differentiates itself from its competitors.
Strengths and strategies	(i) Key strengths and strategies with a brief description (if not self-explanatory).
Shareholders	(i) Identities of controlling shareholders (and the existence of any concert party agreement) and major pre-IPO investors. (ii) Competition and key business relationship with controlling shareholders. (iii) Dilution impact resulting from full exercise of all outstanding pre-IPO share options and/or other derivatives. (iv) Amount of material continuing connected transactions after listing and the related historical amounts during the track record period.

Key operational and financial data	(i) Succinct financial data[1] (e.g. key line items of financial statements) and other key financial/operational metrics (e.g. sales volume, average selling price, average transaction value, gross/net profit margins in percentage terms) by category (e.g. business segment, product type, brand and distribution channel). (ii) Explanation of material fluctuations of financial position and performance during the track record period which are critical for investors to make an informed investment decision. (iii) For applicants that recorded net liabilities during the track record period as a result of significant fair value change of convertible financial instruments, whether they will turn into a net assets position upon listing due to full conversion of such instruments. (iv) Any significant non-recurring items or those not arising from the ordinary and usual course of the business. (v) For applicants in the banking sector – net interest spread and margin, capital adequacy ratio, non-performing loan ratio and loan-to-deposit ratio. (vi) For applicants in the securities sector – amount of securities underwritten, average commission rates and rate of return, trading volume, assets under management and balances of margin financing and securities lending.
Recent developments	(i) An update on an applicant's business and its industry, market or regulatory environment up to the LPD. (ii) See **Chapter 3.11** for the additional disclosure requirements on material changes in financial and/or trading position after the track record period.
Future plans and prospects	(i) Breakdown and expected timing of the use of proceeds earmarked for future plans, and cross-refer to the "Use of Proceeds" section.
Offer-related information	(i) Key offer statistics (e.g. number of shares to be issued, range of expected market capitalisation[2] and adjusted net tangible value per share).
Profit forecast/ estimate	(i) If a full-year profit forecast/estimate is included, the forecast P/E ratio or other meaningful financial ratios derived therefrom.

[1] An applicant is required to disclose in a listing document quantitative and qualitative information on its financial/operating data after the track record period and up to the LPD, except for liquidity disclosure (see **Chapter 3.11**).

[2] For a PRC issuer with other listed shares (as defined in MB Rule 19A.04 (GEM Rule 25.04(3)(b))), the Exchange accepts the calculation of its expected market capitalisation at the time of listing by reference to (i) in respect of the market value of those other listed shares (e.g. A shares), the average closing price of those shares for the five business days immediately preceding the date of listing on the Exchange; and (ii) in respect of the market value of those shares for which listing is sought (e.g. H shares), the issue price of those shares (MB Rule 19A.13D (GEM Rule 25.07C)). For the purpose of listing document disclosure, the market value of those other listed shares (e.g. A shares) can be calculated by reference to the average closing price of those shares for the five business days immediately preceding the LPD. For the avoidance of doubt, all calculations above should exclude treasury shares.

Other information (if relevant)	(i) Material non-compliances, litigation and other material events. (ii) Material risks to an applicant. (iii) Non-standard waivers granted. (iv) Major mergers and acquisitions. (v) For property companies – a list of projects and their status (e.g. gross floor area sold, available for sale and yet to be developed, with the development timeline). (vi) For businesses susceptible to commodity prices/fair value changes – sensitivity analysis and key initiatives to manage these risk exposures. (vii) Highlights of laws and regulations that will materially impact the applicant and investors after listing. (viii) For applicants with a large number of leased stores – a schedule showing details of leased properties (e.g. the region, range of rental expenses, estimated reinstatement costs upon termination and remaining tenure). (ix) For applicants which are not listing under MB Rule 8.05(1) – a statement that the applicant is applying for listing under an alternative test (i.e. MB Rule 8.05(2) or 8.05(3)), with the basis of the applicant's compliance with the eligibility requirements. (x) For spin-off listing applications – a statement of such fact. (xi) Current listing on other securities exchanges or quotation systems (e.g. the National Equities Exchange and Quotation). (xii) See **Chapter 3.11** for guidance on disclosure on dividend and listing expenses.

3.3 RISK FACTORS

1. The "Risk Factors" section in a listing document should discuss all the material risks associated with investing in the applicant and its securities and why these risks are material.

Guidance on Disclosure

2. The table below provides some general guidance:

Be relevant to the applicant	(i) Provide context so that investors can understand the nature of, or circumstances giving rise to, the risk or uncertainty as it affects the applicant, its operations and securities, or the offering. This should include risks that arise from doing business, having material operations or assets and/or being established in any particular jurisdiction.[1] (ii) The risks should be specific to the circumstances of the applicant and each risk factor should specify how it relates to the applicant.
Make quantitative disclosure and focus on the risks, not the background information	(i) Explain the nature and quantify the impact of the risks on the applicant's business operations and financial position. If the likely impact cannot be ascertained, disclose the maximum quantitative impact, if possible. (ii) To avoid diverting investors' attention from the major risks, cross-refer to other parts of the listing document for background information relevant to the risks.
Identify risks individually, and avoid bundling and overlap	(i) Each risk factor should focus on a single and specific principal risk.
Include risks that the applicant is unable to mitigate adequately and that would have a significant impact on the applicant if they occur	(i) Include risks that the applicant is unable to mitigate adequately. Do not include risks that may occur because the applicant may fail to carry out the mitigation adequately. *Example* ✗ *Not appropriate to include possible failure to comply with legal requirements as a risk factor because an applicant is expected to be compliant with laws and regulations, unless there is a genuine and specific reason that gives rise to this uncertainty to comply.* (ii) Applicant should include risks that have a significant effect, even if such risks have low probabilities of occurrence.

[1] Examples include (i) social, economic, political, legal or regulatory risks; (ii) assertion of shareholder's rights; (iii) currency and exchange control risks; (iv) dividend distribution risks; (v) risks of effective service of legal process or enforceability of foreign judgment; (vi) jurisdictional tax risks, etc.

		Example ✓ *Reliance on top suppliers which accounted for over 95% of its total cost of sales* *This may give rise to material risk despite the fact that the likelihood of termination of relationship with all of these suppliers is low, as the disruption to the applicant would be significant if it lost any one of these suppliers*
Appropriate headings and sub-headings	(i)	Organise related risks factors in appropriate categories, such as those relating to the applicant, its business and industry in which it operates. Other relevant risks may include social, economic or political risks relating to countries where the applicant has substantial operations, risks that are specific to the securities, etc.
	(ii)	The heading of each risk factor should succinctly reflect and describe the risk itself, rather than merely disclosing the facts or circumstances that give rise to it. *Example* ✗ *"Reliance on major customers" merely states a fact* ✓ *"Reliance on top five customers which accounted for 75% of our revenue" describes the risk*
Order from the most to least material	(i)	Risk factors should be disclosed in an order from the most to least material, both in terms of likelihood of occurrence and in terms of consequences if it occurs.
No mitigating factors	(i)	Mitigating factors may only be included in other sections of the listing document to give a better assessment of the risks and how the applicant intends to mitigate it. Cross-references to such other sections could be included in the relevant risk factor.
Consistent disclosure	(i)	Must be consistent with information in other sections of the listing document. A disclosure discussed elsewhere in the listing document that clearly suggests a significant risk or uncertainty to the applicant should be included in the "Risk Factors" section.
Exclude outdated risk factors	(i)	Do not include risk factors which are no longer applicable. For example, there might be a risk of implementation uncertainties regarding a new law. However, uncertainties may decrease or even become non-existent after years of implementation. In this context, a risk factor on implementation uncertainties regarding the law is unlikely to be relevant and should not be included.

Avoid disclaimer statements that lack specificity	(i) Avoid disclaimer that merely states that there may be undisclosed risks. *Examples* ✗ *The section is not complete and there may be risks that the applicant does not consider material at the date of listing document may become material in the future* ✗ *There may be risks that we have not yet identified at present*

3.4 INDUSTRY OVERVIEW

1. The "Industry Overview" section in a listing document should include up-to-date and concise information specific to an applicant's business and industry, supported by independent market or operational data with the underlying sources of information.

2. This section should not include general information that is irrelevant or unlikely to affect an applicant's business[1]. Information should be presented in a fair and balanced manner (i.e. an applicant should not only disclose favourable information relating to its industry). It should generally be no more than 10 pages, depending on the nature and complexity of each case.

Guidance on Disclosure

3. The table below provides some general guidance:

Up-to-date market information	(i) Most up-to-date market information (i.e. industry maturity, industry size, key customers and suppliers, and how they are relevant to an applicant's business) for time periods consistent with an applicant's track record period[2]. Relevant market information should also be included for new major businesses undertaken/to be undertaken by an applicant. (ii) Basis for the expected trends of the relevant markets with qualitative and quantitative information. (iii) If the track record period (e.g. up to the financial year 2022) extends beyond the period of industry data disclosed (i.e. up to 2021) and there is no subsequent data in support, a directors' confirmation that there has been no adverse change in the market information since the date of the commissioned research report (if any) that may qualify, contradict or impact the information disclosed.
Competitive landscape and competitive advantages	(i) Market share of an applicant's major products, identities and details of key market players and their respective market shares, nature of competition, entry barriers, market opportunities, threats and/or challenges, and competitive advantages of the applicant. If an applicant considers that the identities of the key market players cannot be disclosed in the listing document, it should (a) advise compelling reasons for such non-disclosure and whether it has proactively requested (with details of the actions taken) for public disclosure of their identities; and (b) disclose detailed background information (i.e. year of establishment, business scale, listing venue (if any)) of the key market

[1] For example, the Exchange considers that the following information may not be relevant to be included in the "Industry Overview" section: (i) global economic trend data, gross domestic product, or consumer price index (past and forecast) for an applicant engaging in sales of consumer products in the PRC only; (ii) a lengthy discussion on the prospects and trends in the Hong Kong property market for an applicant engaging in property development with 95% of its projects in the PRC and 5% in Hong Kong but has no immediate plan to significantly expand into the Hong Kong market; and (iii) historical exchange rates of Euro and RMB without specific information on the trend of fluctuations and how it would impact an applicant that faces significant foreign currency risk (i.e. for an applicant engaging in manufacturing with sales focusing in European countries and purchases from the PRC suppliers).

[2] An applicant should state clearly if such information is not available.

	players such that a reasonable industry participant would be able to discern their identities by reading the disclosure.
Market share, ranking and position	(i) Diagrams illustrating an applicant's market position within the industry value chain. (ii) Market share and ranking in the industry. (iii) Avoid disclosure based on narrowly defined markets, and if an applicant describes itself as a market leader in such segment, include proper context that such segment is only a small subset of the overall industry and the respective share of such sub-segment within the whole industry.
Historical price trends of raw materials and final products	(i) Preferably in the form of charts and tables, historical prices of an applicant's major raw materials and final products (particularly for applicants engaging in the commodities business), and commentaries on any material fluctuations. (ii) Brief discussion on how any changes to an applicant's major raw material prices affected the historical selling prices of its final products.
Sources and reliability of information	(i) Underlying sources of information (instead of merely referring to the industry consultant). (ii) Whether any research report is commissioned by an applicant or its connected persons/associates and/or the sponsor, fees paid for commissioned research reports, and the business, background and credentials of the industry consultant. (iii) Parameters and assumptions used when the data or statistics (including forward-looking data) are collected and analysed, and the basis upon which the data or statistics are considered reliable.



Note

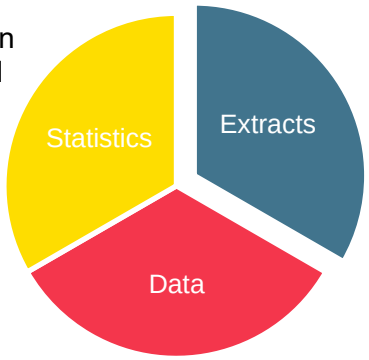
The sponsor should advise the details of the due diligence performed to verify the validity of the market position disclosure, including the methodology adopted by the industry consultant in:

(i) Determining the overall market size of the industry in which an applicant operates and the number of market players in that industry; and

(ii) Identifying the top market players and how these players' background information and financial/operating data are obtained, and the reasonableness of assumptions adopted.

Statistics, Data and Extracts

4. Where an applicant discloses statistics, data or information published on the Exchange's website, the directors and sponsor must obtain prior consent from the Exchange's Legal Services Department for disclosure. Directors and sponsor should take steps to ensure that information is reasonably represented in a listing document and comply with the Listing Rules and any qualifying language proposed to be included therein should not violate such standard.



5. For statistics, data and extracts from:

   (i) **Official government sources, documents or statements** – may use cautionary language to limit the directors' and sponsor's responsibilities in ensuring the accuracy, reliability and/or completeness of information cited from such sources.

   (ii) **Expert reports** – do not use cautionary language to limit the directors' and sponsor's responsibilities as they have the responsibility to exercise reasonable care when selecting an expert to prepare a report for inclusion in the listing document.

   (iii) **Commissioned/non-commissioned research reports**:

      (a) Directors and sponsor should make reasonable enquiries to confirm the accuracy and completeness of the information, and make appropriate judgment in choosing the data to be used and how it is presented in the listing document.

      (b) If the directors and sponsor have practical difficulties in independently verifying the information contained in the reports, the applicant may use cautionary language regarding these practical difficulties[3].

6. The Exchange generally allows the use of cautionary language and related risk factor along the following lines: "*We believe that the source[s] of this information [is an/are] appropriate* source*[s] for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official government sources has not been independently verified by us, the sponsor(s), the [overall coordinator(s)], the underwriters or any other party involved in the global offering and no representation is given as to its accuracy.*"

7. Applicants should disclose that the directors and sponsor have exercised reasonable care in selecting and identifying the named information sources, compiling, extracting and reproducing the information, and ensuring no material omission of the information.

[3] The applicant should also bring to the Exchange's attention details relating the practical difficulties encountered in their independent verifications of the information in research reports.

3.5 REGULATIONS

1. The "Regulations" section in a listing document should describe rules and regulations that are material to an applicant's current and/or future business. This section should be prepared in a manner that is easy to understand by investors without the use of legalistic language, and generally be no more than 20 pages, depending on the nature and complexity of each case.

2. This section should cross-refer to other relevant sections of the listing document where possible. For example, where there are (i) amendments and anticipated amendments to the laws, (ii) risk of non-compliance; or (iii) legal process inefficacy (such as difficulty of enforcing foreign judgment against the applicant) that are expected to have material impact on an applicant, the applicant should cross-refer to the "Business", "Risk Factors", "Financial Information" and other sections to describe the impact on the applicant, and its plans and procedures implemented or to be implemented to mitigate the impact.

Guidance on Disclosure

3. The table below provides some general guidance:

Key laws and regulations of the relevant jurisdiction	(i) Current laws and regulations that are specific and have material impact on an applicant's business in each of the jurisdictions it has or plans to have material businesses (e.g. rules and regulations governing an applicant's key licences for operation, protective tariffs or trade restrictions imposed on an applicant's goods imported into its customer's country, intellectual property protection in relation to the products sold by an applicant in its customer's country and an applicant's liabilities for breaches, etc.). (ii) Explanation on how each law or regulation affects an applicant's business. **Important Note** (a) No abstract summaries of laws and regulations. (b) No boilerplate disclosure of laws and regulations that do not materially impact its business (e.g. laws that apply to a business segment which represented, or is expected to represent, a relatively small percentage of an applicant's revenue and profits).
Key changes in laws and regulations	(i) Potential changes in laws and regulations that are expected to have material impact on an applicant's business (e.g. the impact of an increase in stamp duty on a property development company or a more stringent financial requirement for obtaining a licence). (ii) Changes in laws and regulations prior to, during or subsequent to the track record period that materially impact the applicant's business or financial performance during the track record period.

Risk of non-compliance	(i) Actions taken by an applicant and/or plans to ensure compliance where there is a risk that an applicant's business may commit a material breach of applicable law or regulation. (ii) Legal adviser's opinion as to materiality of risk, the risk of enforcement and the maximum liability of an applicant.
Highly regulated industries (e.g. banking, insurance, gambling industries)	(i) Local laws and regulations governing the highly regulated industries. (ii) Other international/industry-specific rules and standards (e.g. international standards on anti-money laundering).
Legal process efficacy in an applicant's jurisdiction of incorporation	(i) The inefficacy of legal process where an applicant is incorporated that would affect its business operation and how shareholders (including depositary receipt holders) would exercise their rights against an applicant or among themselves in a timely manner. For example: (a) Considerable backlog in the local courts giving rise to significant delays in enforcing legal remedies; (b) Difficulty of enforcing a foreign judgment against an applicant due to complexity over recognition of overseas judgements; or (c) Procedural impediments in the judicial systems. (ii) Disclosure of regulatory provisions (see MB Rules 19.10(2), 19.10(3), 19A.27(2), 19A.27(3) and 19C.10B(7) (GEM Rules 24.09(2), 24.09(3), 24.27, 25.20(2) and 25.20(3))) in relation to an applicant's jurisdiction of incorporation should be set out in a separate section in a listing document.

Guidance on Disclosure for Applicants in Industries with Evolving Regulatory Environment

4. An applicant that operates in sectors for which local laws and regulations are still evolving or being drafted may be uncertain as to how it can demonstrate its compliance with the relevant laws and regulations.

5. In connection with circumstances envisaged in paragraph 4, the Exchange would normally expect disclosure of the associated risks in the listing document to be sufficient and would not expect the legal opinion of an applicant's legal adviser to cover its compliance with the unimplemented laws and regulations.

6. If it is certain that the relevant draft laws and regulations will be promulgated in the near future, an applicant should demonstrate, with the support of a local legal opinion, that it is able to comply with the requirements (and any guidelines) of the draft regulations on the basis that the draft regulations are promulgated in the form as set out in public notices of the laws and regulations (e.g. in a government gazette) as at the LPD.

3.6 HISTORY AND DEVELOPMENT

1. The "History and Development" section in a listing document should include material information on an applicant's establishment, development, corporate structure and shareholding. This section should generally be no more than 20 pages, depending on the nature and complexity of each case.

Guidance on Disclosure

2. The table below provides some general guidance:

Establishment and development	(i) Information on founders (if not disclosed in the "Directors and Senior Management" section) and development milestones in table form. (ii) How an applicant developed its business to its current form and scale (e.g. reason for change in business focus or expansion of geographical coverage). (iii) Incorporation and commencement of business of each member/entity of the listing group that has made material contribution to the track record results.
Corporate structure	(i) Shareholding and corporate structure charts before and after major reorganisations and upon completion of the share offer. (ii) Principal business activities of each major subsidiary. Where there are many subsidiaries, an explanation for the need for a complex group structure. (iii) Identities of other shareholders of non-wholly owned subsidiaries and jointly controlled entities and whether they are independent third parties by way of notes to the corporate structure chart. (iv) See **Chapter 4.1** for guidance on contractual arrangements.
Shareholders	(i) Identities and background of shareholders and the relationship among shareholders (ii) For material changes in shareholdings during the track record period, the background of the then shareholders, their relationships with the applicant and its connected persons, the reasons for transfer, settlement date, and amount and basis of consideration involved. (iii) Lock-up arrangements on shareholders, and details of outstanding options, warrants and convertibles that may potentially affect shareholding structure and their dilution effect. (iv) See **Chapter 4.2** for guidance on pre-IPO investment.

Reorganisation	(i) Major reorganisation steps (including basis and amount of consideration, identities of the relevant counterparties and their relationship with the applicant and its connected persons, and completion date) and whether the reorganisation complies with the relevant laws and regulations, with the support of a legal opinion. (ii) Date of regulatory approval, registration or filing required for reorganisation and the listing. (iii) Reasons for excluding certain companies/businesses engaging in same or similar businesses as the applicant or ancillary businesses, the compliance record and profitability of the excluded business.
Acquisitions, disposals and mergers	(i) Details of material acquisitions, disposals and mergers, including their principal businesses, the basis and amount of consideration, settlement dates, reasons for the transactions, the impact of the transaction on the applicant, and the transferor/transferee's relationship with the applicant. (ii) Whether each of the acquisitions, disposals and mergers has been properly and legally completed and settled, and all applicable regulatory approvals have been obtained. (iii) Whether the acquisition during the track record period falls within the scope of MB Rule 4.05A (GEM Rule 7.04A), with basis.
Listing history or attempt	(i) Information on current or previous listing or listing attempt on the Exchange or other stock exchanges (e.g. timing, compliance record, why and when it was delisted or the listing attempt was terminated) and the sponsor's view on whether there is any matter that should be brought to investors' attention or a negative confirmation. (ii) Where the applicant has been privatised, details of the privatisation, including consideration and how it was financed, and justification for any material difference in valuation between privatisation and the offering. (iii) Reasons for an applicant to seek a listing on the Exchange and where applicable, a separate listing by way of a spin-off from a listed company.
Public float	(i) Minimum prescribed public float percentage applicable to the class of securities new to listing under different circumstances (e.g. if the offer price is fixed at the bottom end, mid-point or top end of the offer price range); and (ii) Expected percentage of public float[1] immediately upon listing, identities of shareholders who are not considered to be public and their relationship with the applicant, and a statement confirming the applicant's compliance with the applicable public float threshold immediately upon listing.

[1] For the purpose of calculating public float of a PRC issuer under MB Rule 19A.13A (GEM Rule 25.07A), (i) the numerator of its public float percentage would be calculated by reference to its H shares held by the public; and (ii) the denominator of its public float percentage would comprise all shares it has in issue (listed or unlisted, as the case may be) that are in the class to which H shares belong; and in each case, excluding treasury shares. For the avoidance of doubt, in the case of a PRC issuer with other listed shares (as defined in MB Rule 19A.04 (GEM Rule 25.04(3)(b))), the other listed shares in the class to which H shares belong that are not fungible with H shares will only be included in the denominator (but not the numerator) of the calculation.

Free float	(i) A statement confirming the applicant's compliance with the free float requirement [2] under MB Rule 8.08A/19A.13C (GEM Rule 11.23A/25.07B).

Reorganisation

3. Applicants should be mindful of the possible implications of how the listing group is restructured. Different companies recently placed under the same listing group which were not operated as a single economic unit during the track record period may lead to a concern that the reorganisation was done solely to package the business in order to meet the eligibility requirements.

4. The Exchange expects reorganisation to be completed before listing to provide certainty on the subject matter of the listing. If an applicant can only complete its reorganisation steps immediately after listing, there must be sufficient reasons for such arrangement and the applicant must demonstrate that such arrangement is not for the purpose of circumventing Listing Rules requirements.

5. See **Annex A.13** for listing decisions on applicants with packaging concerns and/or reorganisation issues.

Waivers concerning Pre-IPO Share Option or Award Schemes

Waiver from strict compliance with MB Rule 17.02 and paragraph 27 of Appendix D1A

6. In general, the Exchange would grant waivers from disclosing the names and addresses of certain grantees in the listing document. However, a waiver from disclosure of other information (e.g. price and duration of the options) is not normally granted.

7. An applicant applying for a waiver is at least subject to the following conditions:

   (i) Demonstrate that the disclosure required under the relevant Listing Rules would be irrelevant or unduly burdensome;

   (ii) Disclose the following in the listing document:

	(a) For each of the pre-IPO option grantees who is (1) a director, (2) a member of the senior management of the applicant, or (3) a connected person, all the particulars required under paragraph 10(d) of the Third Schedule to the C(WUMP)O, MB Rule 17.02(1)(b) and paragraph 27 of Appendix D1A.

[2] For the purpose of calculating free float of a PRC issuer under MB Rule 19A.13C (GEM Rule 25.07B), (i) the numerator of its free float percentage would be calculated by reference to its H shares held by the public and not subject to any disposal restrictions; and (ii) the denominator of its free float percentage would comprise all shares it has in issue (listed or unlisted, as the case may be) that are in the class to which H shares belong; and in each case, excluding treasury shares. For the avoidance of doubt, in the case of a PRC issuer with other listed shares (as defined in MB Rule 19A.04 (GEM Rule 25.04(3)(b))), the other listed shares in the class to which H shares belong that are not fungible with H shares will only be included in the denominator (but not the numerator) of the calculation.

	(b) For the remaining grantees, on an aggregate basis, (1) the aggregate number of grantees and the number of shares underlying the options; (2) the exercise period of each option; (3) the consideration paid for the options; and (4) the exercise price of the options.
	(c) The aggregate number of underlying shares required to be issued to satisfy the options under the pre-IPO option schemes; (2) the percentage of such aggregate number of underlying shares to the applicant's issued share capital; and (3) the dilution effect and impact on earnings per share upon full exercise of the options under the pre-IPO option schemes.

(iii) Make available for public inspection a full list of all grantees under the pre-IPO option schemes with all the particulars required under paragraph 10(d) of the Third Schedule to the C(WUMP)O, MB Rule 17.02(1)(b) and paragraph 27 of Appendix D1A.

Waiver from strict compliance with MB Rules 17.03B, 17.03D and 17.03(5)

8. Companies in the internet technology sector or having internet-based business models (the "**Relevant Sectors**"), particularly those in the stage of rapid growth, put great emphasis on retaining and incentivising talented persons through grant of share options or awards and may find the requirements under MB Rules 17.03B, 17.03D and 17.03(5) to be restrictive and unduly burdensome.
9. The Exchange may at its discretion grant a waiver to an applicant in the Relevant Sectors[3] to:

    (i) Set a percentage higher than the 10% cap on grants of total share options or awards under the share option or award scheme;

    (ii) Set a percentage higher than the 1% cap on grants of share options or awards to an individual under the share option or award scheme; and/or

    (iii) Set a period longer than the ten years' limit within which an option must be exercised by the grantee.

10. An applicant applying for a waiver referred to above is at least subject to the following conditions:

    (i) Demonstrate the necessity for a higher cap and/or longer option period;

    (ii) Demonstrate clear criteria for granting share options or awards under the share option or award scheme; and

    (iii) Disclose in its listing document the material terms of the share option or award scheme and the circumstances that it may grant share options or awards beyond the percentage caps under MB Rules 17.03B and 17.03D.

[3] The Exchange will consider waiver applications from applicants operating in businesses other than the Relevant Sectors on a case-by-case basis, taking into account factors such as the industry norm, the applicants' remuneration policy and their justifications for requiring higher limits.

3.7 BUSINESS

1. The “Business” section in a listing document should explain the material components of an applicant’s business operations.

Guidance on Disclosure

2. The table below provides some general guidance:

Business model	(i) Nature and major functions of each business segment, their scale and contribution. (ii) Revenue model and product/service monetisation. (iii) Where the business model is complicated, describe different parties/intermediaries involved and the flow of products/services and funds with flowcharts. (iv) For any change or proposed change in the business focus, the reasons therefor and any related change in cost structure, profit margins and risk profile. (v) See **Chapter 4.5** to **Chapter 4.11** for guidance on disclosure of operational data for other specific industries/business models.
Strengths, strategies and future plans	(i) Business strategies (e.g. strengthening sales network, vertical expansion, entering into long-term contracts and acquisitions). (ii) Competitive advantages of products/services and targeted markets, the potential cost of market penetration and the related risk highlighted in the “Risk Factors” section. (iii) Expansion plans (e.g. reasons for expansion, site selection, expected capacity and breakeven and investment payback periods with assumptions) and the implementation of such plans, the time frame, capital expenditure requirements, amounts spent/to be spent, payment timing and source of funding. (iv) Details of any identified acquisition targets and the selection criteria.
Products and services	(i) Product and service types, product life cycle, seasonality, and if applicable, changes to product mix during the track record period. (ii) Pictures of products sold, price ranges by brands and product types/ services, reasons for material fluctuations during the track record period, and future price trends.

Suppliers, raw materials and inventory	(i) Identities [1] and background of the five largest suppliers in each year/period during the track record period (e.g. business activities, size of operations, location, product/service supplied to the applicant, years of business relationship, whether they are connected persons, credit terms and payment method). (ii) Costs/purchases related to the five largest suppliers in each year/period during the track record period (in dollar and percentage terms) and key commercial terms (including explanation of material deviation from agreed terms). (iii) Detailed terms and conditions of any long-term agreements (e.g. duration, minimum purchase commitment of the applicant and any penalty in case of shortfall, price adjustment provision, renewal and termination clauses), enforceability and any material breaches of agreements during the track record period and up to the LPD. (iv) Major countries where raw materials are purchased. (v) Concentration risk and counterparty risk. (vi) Sensitivity and breakeven analysis of cost changes. (vii) Any shortage or delay in the supply of raw materials and measures to manage such shortage (e.g. alternative suppliers with comparable quality and prices, and substitutes). (viii) Measures to manage fluctuations of raw material prices and how increases in purchase costs are passed to customers. (ix) Inventory control measures (e.g. purchases on a back-to-back basis upon receipt of orders, level of inventory to be maintained) and policy on making provision. (x) Legality of the source of supply (e.g. parallel imports, fur, wood and diamonds).
Customers	(i) Identities[1] and background of the five largest customers in each year/period during the track record period (e.g. business activities, size of operation, location, product/service purchased from the applicant, years of business relationship, whether they are connected persons, credit terms and payment method). (ii) Revenue from the five largest customers in each year/period during the track record period (in dollar and percentage terms) and key commercial terms (including explanation of material deviation from agreed terms). (iii) Detailed terms and conditions of any long-term agreements (e.g. duration, minimum purchase commitment (of the customer) and any penalty in case of breaches, price adjustment, renewal and termination clauses),

[1] In cases where any of the information about the applicants' suppliers/customers cannot be disclosed in the listing document, (i) sufficient alternative disclosure on the relevant suppliers/customers must be included in the listing document to enable investors' proper assessment; and (ii) submissions of the following should be made together with the listing application to the Exchange for its assessment: (a) the relevant information on the five largest suppliers/customers; (b) whether the applicant has proactively requested for the public disclosure of such relevant information and details of the actions taken in this regard; and (c) compelling reasons for the non-disclosure.

	enforceability and details of any breaches of agreements during the track record period and up to the LPD. (iv) Whether any major customer is also a supplier or vice versa, and if so, the reasons therefor and the percentage/breakdown of revenue/costs/ gross profit involved during the track record period. (v) Major countries to which products are sold. (vi) Concentration and counterparty risks. (vii) Any third party payment arrangement (e.g. reason for such arrangement, the number of customers involved and their relationship with the third-party payors, transaction amounts and percentage and legality of such arrangement and basis thereof) and a corresponding risk factor in the "Risk Factors" section. The Exchange would normally expect the applicant to terminate such arrangement prior to listing and demonstrate that the cessation did not result in any material adverse impact on the applicant, with enhanced internal control measures to prevent recurrence.
Project-based transactions	(i) Customers' identities[1] and background, material contractual terms (e.g. scope, duration and value), movement of projects on hand in terms of contract value and number of projects (i.e. backlog), revenue recognised and to be recognised in the financial year immediately following the end of the track record period, and if applicable, details of loss-making projects. (ii) Number of tenders submitted and tender success rate, customer stickiness, and commentary on the material fluctuations during the track record period.
Production	(i) Operation flows and production processes/time (for each critical process) in flowcharts. (ii) Particulars, capacity and utilisation rate of production facilities by major product category. (iii) Basis of calculating utilisation rate, and explain any material fluctuations, low or exceedingly high utilisation. (iv) Major assets and equipment (leased or owned, repair and maintenance history, age, depreciation method and time for replacement or upgrade).
Subcontracting	(i) Reasons for subcontracting and basis of selecting subcontractors, and their details (e.g. years of business relationship with an applicant and whether they are independent third parties). (ii) Salient terms of the subcontracting arrangements/agreements (e.g. duration, responsibilities of the subcontractors, raw materials procurement policy, compliance with quality requirements, basis of the fees, renewal and termination clauses).
Sales and marketing	(i) Direct sales or through distribution channels (e.g. trading companies, franchisers, and distributors). See **Chapter 4.5** for guidance on distributorship model.

	(ii) Movement of point of sales opened and closed during the track record period and reasons for closure in table form. (iii) Pricing policy (e.g. fixed price/cost plus), and any rebates. (iv) Governmental regulatory pricing guidelines (e.g. ceiling/mark-up/defined profit margin) and compliance status. (v) Advertising, sales incentive, promotion and discounts.
Product returns and warranty	(i) Product returns policy and warranty policy (including warranty terms, time period and provisioning policy). (ii) Product recalls/return/liability claims and warranty expenses/provisions during the track record period. (iii) Allocation of liability for product defects between an applicant and its suppliers. (iv) Customer complaints policies/handling procedures and details of any material customer complaints during the track record period (including their nature, status, compensation paid and enhanced internal control measures, if any).
Insurance	(i) Policies undertaken, uncovered risks (including any share of liability with counterparties), sufficiency of coverage and comparability with peers.
R&D	(i) Material technology and technical know-how required for products/ services. (ii) R&D team and accounting policy (e.g. nature and amount of R&D expenses, when they are expensed or capitalised, qualifications and experience of the personnel). (iii) Salient terms of cooperation agreements with third parties (including the cost/profit/loss sharing arrangement, ownership of intellectual property rights, fees paid to third parties) and enforceability.
CG and ESG matters	(i) See **Chapter 4.3** for guidance on CG and ESG matters.
Internet information services and data security	(i) If an applicant's business involves the provision of internet information services, details of the regulatory framework (e.g. the licensing requirements, and whether the provision of such services is subject to foreign ownership restrictions). See **Chapter 4.1** for guidance on contractual arrangements. (ii) Personal data obtained in the course of business operations, and data protection policies (e.g. the type of personal data involved, the measures on data collection, storage, process, usage, transfer, disclosure, retention and destruction). (iii) Status of compliance with personal data and privacy protection laws and regulations in all relevant jurisdictions (including any incidents of material data leakage).

IP	(i) Material trademarks, patents registered and pending registration[2]. (ii) Any IP disputes/infringements (whether they resulted in any legal actions, and if not, the reasons therefor).
Employees	(i) Number of employees by function and geographical location. (ii) Training and recruitment policies. (iii) Labour unions and any labour disputes. (iv) Details of engagement of employment agents, including (a) salient terms of the arrangements; (b) legality of engaging outsourced employment agents; and (c) the party to bear the relevant costs of social insurance and housing funds or similar employee benefits in the jurisdiction of employment.
Properties	(i) See **Chapter 4.11** for guidance on matters relating to land and properties.
Non-compliance matters	(i) Details of material non-compliance incidents. See **Chapter 1.2D** for guidance on the types of non-compliance incidents and their impact on an applicant's suitability, and the relevant disclosure requirements.
Litigation	(i) Details of any actual or threatened material claims or litigations and their impact on an applicant's operations, financial performance and reputation. (ii) See **Chapter 1.2C** for guidance if persons with significant influence and/or directors were/are involved in the above claims and litigations.
Risk management and internal control systems	(i) Existing risk management policies/procedures and internal control systems (with explanations on how they identify, evaluate and manage significant risks such as market, credit and operational risks and those identified in the "Risk Factors" section). (ii) If relevant, an applicant's hedging strategy, for example: (a) percentage of exposure to be hedged; (b) whether an applicant has engaged and/or will engage in speculative activities; (c) under what circumstances an applicant would adopt each particular type of hedging method; and (d) key terms of hedging contracts and net hedging position. (iii) Ongoing measures to monitor the effectiveness of the foregoing policies, procedures and measures. (iv) For internal control measures and assessment performed by external professionals, the relevant experience of such professionals and the specific work performed by them[3].

[2] Including the associated classes of goods and services.

[3] If the external professionals are the reporting accountants or another accounting firm, an internal control review may be regarded as a private advice to the directors of the applicant (and if they are party to the engagement, the sponsor). Accordingly, under such circumstances, the name of the reporting accountants or other accounting firm and details of their work and findings may be prevented from being quoted or referenced in the listing document. One circumstance under which internal control work may be referenced in the listing document is when the applicant and the sponsor additionally and separately engage the reporting accountants or other accounting firm to also perform an assurance engagement in relation to internal control, where practicable.

Licences, permits and approvals	(i) All material requisite licences, permits and approvals obtained for its operations, grant and expiry dates and whether renewal is required. (ii) Status of renewal of licences, expected timeframe and, with the support of a legal opinion, whether there is any legal impediment to renewing the licences.

3.8 RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

1. The "Relationship with Controlling Shareholders" section in a listing document should provide details of an applicant's controlling shareholders and discuss the applicant's independence of, and competition with, its controlling shareholders.

2. See also **Chapter 1.1C** for guidance on identifying controlling shareholders for applicants.

Guidance on Disclosure

3. The table below provides some general guidance:

Information of controlling shareholders	(i) Identity and background of controlling shareholders, including principal activities and shareholdings of each listed company owned by them. The identity of the controlling shareholder should be determined immediately upon completion of the offering. See **Chapter 1.1C** for determination of the identity of the controlling shareholder when assessing compliance with ownership continuity and control of the applicant. (ii) Basis of identifying the controlling shareholders.
Independence from controlling shareholders[1]	(i) Basis of an applicant's operational, management and financial independence from its controlling shareholders, including details of: (a) Business relationship and arrangement between the applicant and its controlling shareholders, with appropriate quantitative and qualitative information (e.g. revenue contribution, number and amount of transactions). (b) Overlapping directors and senior management between the applicant and its controlling shareholders; and detailed mechanism to address actual and potential conflicts of interests to ensure that the applicant's remaining board can properly function taking into account their expertise and experience. (c) Financial assistance (e.g. loans, guarantees or other forms of collateral or security) obtained from controlling shareholders and the plans for these arrangements after listing. (ii) See **Chapter 1.2B** for guidance on material reliance on controlling shareholders.
Competition with controlling shareholders	(i) Basis upon which there is clear business delineation and no material competition between the applicant and its controlling shareholders, or background and financial information of the competing business for investors to assess whether the competition between an applicant and its controlling shareholders is extreme. (ii) Terms of deed of non-competition/non-competition undertaking ("**NCU**") (if applicable), including:

[1] Including their close associates pursuant to paragraph 27 of MB Rules Appendix D1A.

(a) Scope of restricted or excluded businesses which compete or are likely to compete with the applicant.

(b) Mechanisms of (1) the controlling shareholders first referring business opportunities which compete or are likely to compete with the applicant (i.e. right of first refusal); and (2) the applicant determining whether to take up the business opportunities and the bases which the board of directors will consider.

(iii) Details of CG measures to resolve actual/potential conflicts of interests between the applicant and its controlling shareholders[2], including:

(a) Conflicted directors will abstain from voting at relevant meetings.

(b) INEDs will review compliance with the NCU; and controlling shareholders should provide all information necessary for the INEDs' annual review.

(c) The applicant will disclose decisions on matters reviewed by the INEDs (including why business opportunities referred to it by its controlling shareholders were not taken up) either through its interim and annual reports or by way of announcements.

(iv) See **Chapter 1.2E** for guidance on competition with controlling shareholders.

Post-listing Requirements

4. A controlling shareholder of a listed issuer is subject to the following key continuing obligations after listing:

Restrictions from voting in favour of material corporate actions

(i) Restrict from voting in favour of:

(a) Withdrawal of listing (MB Rule 6.12 (GEM Rule 9.20)).

(b) Rights issue/open offer enlarging share capital by over 50% (MB Rules 7.19 and 7.24 (GEM Rules 10.29 and 10.39)).

(c) Refreshment of general mandate (MB Rule 13.36(4) (GEM Rule 17.42A)).

(d) Reverse takeovers (MB Rule 14.55 (GEM Rule 19.55)).

(e) Spin-offs (Paragraph 3(e) in MB Practice Note 15 (Paragraph 3(e) in GEM Practice Note 3)).

(ii) Abstain from voting (applicable for an issuer listed for one year or less):

[2] Such disclosure is also applicable to the directors of an applicant. See **Chapter 1.2C** for details.

		(a) Acquisitions or disposals or other transactions which would result in a fundamental change in the principal business of the issuer (MB Rules 14.89 to 14.91 (GEM Rules 19.88 to 19.90)).
Announcements and disclosure in interim/annual reports		(i) Details of loans requiring controlling shareholders to pledge shares (MB Rule 13.17 and paragraphs 6.3 and 40.3 of MB Rules Appendix D2 (GEM Rules 17.19, 18.04 and 18.55(9))) or to fulfill specific performance obligations (MB Rule 13.18 and paragraphs 6.3 and 40.3 of MB Rules Appendix D2 (GEM Rules 17.20 and 18.55(9))). (ii) Contracts of significance (paragraph 16 of MB Rules Appendix D2 (GEM Rules 18.26 and 18.27)).
Connected transaction implications		(i) Acquisition of interest in a target company from third party is a connected transaction if the target company's substantial shareholder is or is proposed to be a controlling shareholder of the listed issuer (MB Rule 14A.28 (GEM Rule 20.26)).

3.9 CONTINUING CONNECTED TRANSACTIONS

1. The "Continuing Connected Transactions" ("**CCTs**") section in a listing document should include ongoing transactions with connected persons after listing and the related waivers from the Listing Rules.

Guidance on Disclosure

2. The table below provides some general guidance:

Overview	(i) Connectedness between the applicant and its connected persons, including shareholding relationships. (ii) Nature and terms of CCTs, and historical figures and proposed annual caps in table form. (iii) Waiver applications[1] and classification of the transactions into different categories (i.e. exempt CCTs, non-exempt CCTs subject to reporting and announcement requirements and non-exempt CCTs subject to reporting, announcement and shareholders' approval requirements), together with the basis under the Listing Rules. (iv) Aggregation of CCTs under MB Rule 14A.82 (GEM Rule 20.80).
Annual caps	(i) Key assumptions and qualitative and quantitative justifications of the annual caps (e.g. reasons for significant increase in annual caps taking into account historical amounts). (ii) Reasons for and basis of non-monetary annual caps (see paragraph 6 below).
Pricing policies	(i) Material information on pricing policies and guidelines (see paragraphs 3 to 5 below), and specific pricing terms or formula set out in the agreements. (ii) If pricing is determined based on a reference price, disclose the name of the government authority or organisation publishing the price, how and where the price is determined or disclosed, and the frequency of update.
Directors' and sponsor's confirmation	(i) Directors' (including the INEDs') and sponsor's confirmation that: (a) The non-exempt CCTs have been and will be entered into in the ordinary and usual course of the applicant's business, are on normal commercial terms or better terms, are fair and reasonable and in the interests of the shareholders as a whole. If not, the reasons therefor must also be disclosed; and (b) The proposed annual caps for the non-exempt CCTs are fair and reasonable and in the interests of the shareholders as a whole.

[1] Ensure the number and description of waivers disclosed in the AP are the same as the waiver applications submitted with the listing application documents.

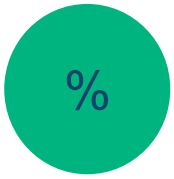
(ii) If the period of the agreement exceeds three years, the sponsor has to explain why a longer period for the agreement is required and to confirm that it is normal business practice for contracts of this type to be of such duration under MB Rule 14A.52 (GEM Rule 20.50) (see paragraph 8 below).

Pricing Policies

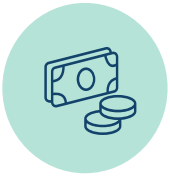
3. When entering into agreements with connected persons, an applicant should agree on specific pricing terms, such as fixed monetary consideration, a pre-determined formula, or fixed per unit consideration. Examples include:



(i) Provision of management services charged at a fixed sum or a percentage of the applicant's sales or asset value



(ii) Interest rate to be charged on a revolving loan facility and the maximum loan amount



(iii) Sales or purchase of goods at a fixed unit price, or some reference price published from time to time (e.g. government prescribed price or commodity prices quoted on an exchange)

4. If the agreement covers transactions of different nature, the pricing policy for each type of transaction should be clearly set out. Generic boilerplate disclosure on pricing mechanism which does not apply to certain types of transactions should be avoided[2].

5. Where it is not commercially practical to agree with the connected person on a specific unit price or contract sum, transactions would normally be conducted in accordance with the applicant's pricing policy which applies to both independent customers and connected persons. The following guidelines should be observed when negotiating the terms of the agreement:

(i) It would be insufficient to describe pricing policies in generic terms without defining them, such as "prevailing market price" or "prices based on arm's length negotiations" or "prices on normal commercial terms".

(ii) Pricing policies should be quantified to the extent possible, such as quantifying "plus" in "cost-plus mechanism". A pricing policy without the expected quantum or percentage is insufficient for assessment and review.

(iii) The transactions must be conducted on normal commercial terms, or on terms no less favourable than terms available to independent third parties. To demonstrate this, the applicant should disclose the methods and procedures the management will follow to

[2] An example of such disclosure is that "*the transaction shall be priced in accordance with the following terms: (i) government-prescribed price; (ii) where there is no government-prescribed price, the government-guidance price; (iii) where there is neither a government-prescribed price nor a government-guidance price, the relevant market price; (iv) where none of the above is available or applicable, the price to be agreed between the parties which shall be determined on the basis of reasonable cost plus reasonable profit margin and by reference to the historical price*". Some of the above pricing methods (e.g. the government-prescribed price) do not apply to the subject transactions.

determine the price and terms of the transactions. Examples include:

(a) For sales of off-the-shelf products or standard services, an indicative range of prices for goods/services, or the minimum/maximum mark-up rate for transactions charged on a cost-plus basis, and procedures for reviewing and approving these price lists or guidelines from time to time;

(b) For sales of proprietary goods or services, the process for estimating and approving the selling prices for the goods or services, and the procedures to ensure that these prices are no less favourable than those offered to, or quoted by, independent customers; and

(c) For purchases of goods or services, the procedures for obtaining quotations or tenders from the connected persons and a sufficient number of independent suppliers, the assessment criteria and the approval process. For example, the management would solicit at least two other contemporaneous transactions with independent third parties for products in similar quantities to determine if the price and terms offered by a connected person are fair and reasonable and comparable to those offered by independent third parties.

(iv) Explain why the directors consider that the methods and procedures can ensure that the transactions will be conducted on normal commercial terms and not be prejudicial to the interests of the applicant and its minority shareholders.

Non-monetary Annual Cap

6. Where an annual cap is not expressed in monetary terms as required under MB Rule 14A.53(1) (GEM Rule 20.51(1)) but with reference to the percentage of an applicant's revenue or cost of sales, the Exchange may grant a waiver taking into account the specific circumstances of the applicant (e.g. why the use of a monetary annual cap is not appropriate) on a case-by-case basis. The waiver would normally be subject to, at a minimum, the following non-exhaustive conditions:

(i) Basis of transaction amount calculation during the track record period and going forward should be disclosed in the listing document. Such basis and related amounts should also be disclosed in future interim and annual reports;

(ii) Any change to the basis of calculating the annual cap would be subject to shareholders' approval;

(iii) The setting of annual cap has to be reviewed by an independent appraisal agent using market comparables;

(iv) Directors (including INEDs) shall confirm that the non-monetary annual cap is fair and reasonable to the applicant and shareholders as a whole; and

(v) The sponsor should confirm in the listing document that, in addition to the confirmation stated in paragraph 2 above, the non-monetary annual cap is fair and reasonable and in the interests of the shareholders as a whole.

7. Examples of past waivers include:

(i) An airport operator was allowed to express its annual cap as a fixed percentage of its revenue for the use of a runway owned by its parent for a term of 20 years.

(ii) Due to volatility in oil and gas prices, applicants in the oil and gas business are allowed to express their annual caps as a fixed quantum (expected transaction volume), provided that they explain how changes to commodity prices would affect the value of the connected transaction.

(iii) An applicant was allowed to express its annual cap as a fixed percentage of its revenue for the use of certain trade names and intellectual property owned by its parent for ten years. See **Annex A.14** for details.

Term of an Agreement

8. Rule 14A.52 (GEM Rule 20A.50) contemplates that CCTs may have a term beyond three years. The burden is on the applicant and its sponsor to explain why a longer term is justified in the circumstances.

9. CCTs should have a fixed term, otherwise a waiver is necessary. The Exchange would not allow a CCT with an indefinite term unless in exceptional circumstances. Applicants are encouraged to consult with the Exchange in advance.

Guidance for Applicants in the Internet Technology Sector or that have Internet-Based Business Models

10. Companies in the internet technology sector or having internet-based business models often leverage on the platform of their parent company, or another connected person, to facilitate sales and marketing. This constitutes a CCT and a monetary annual cap is required. However, it may be impractical to accurately estimate the annual cap since the applicant may have a short operating history or be in the growth phase, so that it would be impractical to estimate an annual cap using the historical revenue. It is common to structure payment as a percentage of revenue generated through the connected person's platform or based on transaction volume. Imposing an arbitrary monetary cap may be unduly burdensome and not in the shareholders' interests after listing.

11. The Exchange may grant waivers from the requirement to set a monetary annual cap and allow the annual cap to be set as a formula on a case-by-case basis (see paragraph 6 above), provided that:

(i) The applicant demonstrates necessity for such arrangement in the circumstances of its case; and

(ii) The formula is in line with historical and prevailing commercial practices.

Post-listing Requirements

12. After listing, an issuer's CCTs would be subject to annual review by auditors and INEDs with disclosure and confirmations in its annual report.

13. Further, an issuer has to demonstrate that it merits the CCT at the time it wishes to renew the waiver and that the circumstances continue to justify granting of the waiver (e.g. where the business volume over the platform has sufficiently stabilised, a monetary cap may have to be set).

3.10 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. The "Directors, Supervisors and Senior Management" section in a listing document should include information on the applicant's management team, board committees, corporate governance and other information.

Biographies

2. In addition to the disclosure pursuant to MB Rule 13.51(2) (GEM Rule 17.50(2))[1], the biography of each director, supervisor and senior management should include:

Summarised information	(i) The first page of the section should include a table setting out the full name, age, date of joining the applicant, present position in the applicant, date of appointment as director[2], supervisor or senior manager and brief description of their roles and responsibilities, and any relationship among them, and the board composition.
Academic and professional background	(i) Academic background (e.g. names and locations of universities or colleges[3], level of education, major of studies, and whether the courses attended were long distance learning courses or online courses). (ii) Professional qualifications[4], including when (month and year) obtained and the granting authorities (if any).
Working experience	(i) Previous working experience relevant to his/her present position in the applicant (preferably in tabular format if information is extensive), including: (a) How he/she gained relevant industry knowledge and experience; and (b) The names and principal business activities of companies which he/she was previously engaged in before joining the applicant, his/her roles and responsibilities and period of services in the previous jobs.
Directorships	(i) Any current or past directorships in listed companies in the last three years (or an appropriate negative statement).

1 Such as, public sanctions made against directors and details of any company which has been dissolved or liquidated during the period he/she was a director (or as a supervisor or manager of a company established in the PRC) or within 12 months after he/she ceasing to act in the role. If there is no information to be disclosed pursuant to certain requirements under MB Rule 13.51(2) (GEM Rule 17.50(2)), the applicant should disclose a negative statement with references to the relevant paragraphs. The applicant should separately disclose a statement to confirm whether or not there are any other matters that need to be brought to the attention of the investors (MB Rule 13.51(2)(w) (GEM Rule 17.50(2)(w))).

2 All executive directors and non-executive directors must be appointed when an applicant submits its listing application. All INEDs must be identified when an applicant submits its listing application, but their actual appointments may take place closer to the time the listing document is issued.

3 If the relevant university or college is not accredited by competent bodies, this information should be specifically disclosed.

4 Any qualification in respect of a professional discipline (e.g. law, accounting, engineering, architecture, surveying or medicine). It also includes any professional title and membership of a professional body.

	(ii) If he/she was a director of a listed company which has a history of material non-compliances with applicable rules and regulations, details of such non-compliances and his/her level of involvement in the non-compliances, and the sponsor's view on why he/she is suitable to be a director, supervisor or senior management of the applicant.

Other Guidance on Disclosure

3. The following should also be disclosed:

   (i) The role and composition of audit committee, remuneration committee, nomination committee, and other committees, if applicable, including the identity of the chairperson of each committee;

   (ii) The directors, supervisors and senior management's remuneration and incentive plan for senior management and key employees;

   (iii) Any deviation from the Code Provisions of MB Appendix C1 (GEM Appendix C1) (e.g. reasons for the same individual acting as chairman and chief executive officer and succession plan); and

   (iv) Details of competing interests[5] (if any) and CG measures to resolve actual/potential conflicts of interests, if any, between the applicant and its directors. See **Chapter 4.3** for details.

4. Persons who were not directors or senior management of the applicant or any of its subsidiaries during the track record period are not required to be included in the table of directors' remuneration in the Accountants' Report.

Board Diversity and Policy

5. The Exchange is committed to promoting board diversity among issuers. Applicants should disclose a policy on board diversity (including gender). While diversity can be achieved through a number of factors (including but not limited to gender, age, cultural and educational background or professional experience), the Exchange will not consider diversity to be achieved for a single gender board[6].

Compliance Adviser

6. Applicants should disclose the terms and material details of contractual arrangements between the applicant and its compliance adviser.



[5] MB Rule 8.10(2) or GEM Rule 11.04.
[6] MB Rule 13.92 or GEM Rule 17.104.

Other Considerations

Management Presence in Hong Kong

7. MB Rule 8.12 provides that applicants for a primary listing must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Such requirement may be waived on a case-by-case basis taking into account the applicant's arrangements for maintaining regular communication with the Exchange[7].

8. The Exchange would ordinarily expect the following conditions in a waiver application and may modify or impose additional conditions:



Principal channel of communication

(i) Its authorised representatives will act as the principal channel of communication with the Exchange.



Contact with directors

(ii) The authorised representatives should have means for contacting all directors promptly at all times as and when the Exchange wishes to contact the directors on any matters.



Valid travel documents

(iii) Each director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Exchange within a reasonable period.



Compliance advisers

(iv) The compliance advisers will act as an additional channel of communication with the Exchange.



Directors' contact details

(v) Each director will provide their respective mobile phone numbers, office phone numbers, e-mail addresses and fax numbers to the Exchange.

Experience and Qualification of a Company Secretary

9. MB Rule 3.28 (GEM Rule 5.14) requires a company secretary of an applicant to possess certain academic or professional qualifications, or relevant experience to be considered capable of discharging the functions of company secretary:

[7] MB Rule 19A.15.

Acceptable Qualification or **Relevant Experience**

The academic or professional qualifications to be considered acceptable by the Exchange ("**Acceptable Qualification**") include:

(i) A Member of The Hong Kong Chartered Governance Institute;

(ii) A solicitor or barrister under the Legal Practitioners Ordinance (Cap. 159); and

(iii) A certified public accountant (as defined in the Professional Accountants Ordinance (Cap. 50)).

The Exchange's assessment criteria for relevant experience ("**Relevant Experience**") include:

(a) Length of employment with the applicant and other applicants and the roles the company secretary has played;

(b) Familiarity with the Listing Rules and other relevant laws and regulations;

(c) Relevant training taken and/or to be taken in addition to the minimum requirement under MB Rule 3.29 (GEM Rule 5.15) (i.e. 15 hours per financial year); and

(d) Professional qualifications in other jurisdictions.

10. Applicants tend to appoint senior management members, or other employees that had served related roles for a period of time and are familiar with the applicant's business and affairs as company secretary. However, these individuals may not possess the Acceptable Qualification or Relevant Experience as required under MB Rule 3.28 (GEM Rule 5.14). In addition, applicants with principal business activities outside Hong Kong may have practical difficulties in finding a company secretary who possesses day-to-day knowledge of their affairs and the Acceptable Qualification or Relevant Experience.

11. In view of the above, the Exchange has granted waivers to applicants proposing to appoint a company secretary who does not have the qualification and experience required (the "**Proposed Company Secretary**") for a specified period. The Exchange will consider the factors set out below in a waiver application and any waiver, if granted, will be for a fixed period of time ("**Waiver Period**") subject to the following conditions:

Factors to be considered

(i) Whether the applicant has principal business activities primarily outside Hong Kong;

(ii) Whether the applicant is able to demonstrate the need to appoint a person who does not have the Acceptable Qualification or Relevant Experience as a company secretary; and

(iii) Why the directors consider the Proposed Company Secretary to be suitable to act as the applicant's company secretary.

Conditions for waiver

(iv) The Proposed Company Secretary must be assisted by a person who possesses the qualifications or experience as required under MB Rule 3.28 (GEM Rule 5.14) ("**Qualified Person**") and is appointed as a joint company secretary throughout the Waiver Period; and

(v) The waiver will be revoked if there are material breaches of the Listing Rules by the applicant.

12. These conditions are intended to ensure (i) that the Qualified Person will assist the applicant to comply with relevant Hong Kong law and regulations and to achieve a good CG standard; and (ii) a reasonable time is given to enable the Proposed Company Secretary to acquire the Relevant Experience (in particular, the familiarity with the relevant regulatory requirements) over time.

13. The length of the Waiver Period will depend on the following factors, but in any case, will not exceed three years as the Proposed Company Secretary is expected to have acquired the Relevant Experience within such period:

    (i) The Proposed Company Secretary's experience in handling company secretarial matters and his/her relevant professional qualifications and/or academic background;

    (ii) The measures and systems in place to facilitate the Proposed Company Secretary in discharging his/her duties as a company secretary; and

    (iii) The issuer's regulatory compliance and/or material deficiencies/weaknesses in internal controls.

14. Upon the end of the Waiver Period, the Exchange will not automatically deem the Proposed Company Secretary to be qualified under MB Rule 3.28 (GEM Rule 5.14). The issuer must demonstrate and seek the Exchange's confirmation that the Proposed Company Secretary, having had the benefit of the Qualified Person's assistance during the Waiver Period, has attained the Relevant Experience and is capable of discharging the functions of company secretary. The Exchange will assess each case based on the specific facts and circumstances, taking into consideration the following factors:

    (i) Compliance history of the issuer during the Waiver Period; and

    (ii) The relevant training undertaken by the Proposed Company Secretary during the Waiver Period.

Guidance on Disclosure

15. Applicants and issuers should disclose in the listing document and the announcement (as the case may be):

    (i) Reasons for the waiver;

    (ii) Details and conditions of the waiver; and

    (iii) Qualification and experience of both the Proposed Company Secretary and the Qualified Person.

16. **Annex B.5** sets out the FAQs for this chapter.

3.11 FINANCIAL INFORMATION

1. This chapter explains the disclosure requirements for the "Financial Information" section in a listing document and other financial information related disclosures in other parts of the listing document under specific circumstances.

Guidance on Disclosure

2. The "Financial Information" section in a listing document should discuss an applicant's operating results, financial position and cash flows during the track record period and the main trends and factors that are likely to affect the foregoing, with specific information on all existing and planned major business developments, and analysis on their implications.

3. The table below provides some general guidance:

Key factors affecting results of operations	(i) Key events/factors that drive an applicant's historical and future operating results, financial position and cash flows. For example: (a) Economic and regulatory factors such as interest rate environment and unique regulatory challenges that affect the industry/market, which are specific to an applicant. (b) Significant relationships, opportunities, challenges and specific risks that are part of a known trend or that are reasonably likely to have material impact on an applicant's future results of operations.
Critical accounting policies and estimates	(i) Critical accounting policies and estimates that supplement the understanding of the relevant disclosures in the accountants' report. For example: (a) Revenue recognition policies – do not merely state that revenue is recognised upon satisfaction of performance obligations, but also provide meaningful discussions on when and how the revenue is recognised. (b) Accounting standards – for those matters where there are different permissible treatments, the applicant should adopt one treatment consistently. Specifically, the applicant should not merely disclose all permissible treatments. Rather, the applicant should state which treatment has been adopted, and the rationale therefor. (ii) The procedures and methods used by management in making accounting estimates. (iii) Accuracy of past estimates (or underlying assumptions) when compared with actual results. (iv) How estimates (or underlying assumptions) have changed in the past and whether they are likely to change in the future and the reasons therefor.

	(v) For expected material changes in accounting standards/policies which are critical for investors' assessment of the applicant's performance, disclose: *Listing Document* (a) In the "Summary", "Risk Factors" and "Financial Information" sections: (1) Any announced/possible amendments to the accounting standard[1]/policy and the expected effective date; and (2) Potential impact of the changes (with qualitative and quantitative assessment). *Annual/Interim[2] Report after Listing* (b) In the MD&A and/or financial statements, an analysis of the financial results with details at the level similar to that required to be presented in the listing document.
Review of historical operating results, financial position and cash flows	(i) Describe an applicant's financial performance, explain material fluctuations in business operations and performance and any other significant items during the track record period and include a summary of key financial ratios[3]. (ii) Provide meaningful discussions on material movement/fluctuation of financial line items, and the underlying reasons therefor (e.g. do not merely state that an increase in operating cash flows is due to decrease in trade receivables; or a decrease in trade receivables turnover days is due to increase in sales). (iii) Quantify the actual and potential impact on an applicant's operating results, financial position and cash flows if business operations and/or industry environment are subject to significant change (e.g. natural disasters or material changes to commodities prices and political unrest). (iv) Explain the impact of an applicant's business strategies, targets and prospects on its operating results, financial position and cash flows based on qualitative and quantitative information and taking into account past events. (v) Other disclosure:

1 An applicant should refer to paragraphs 30 and 31 of IAS/HKAS 8 which relate to new and revised standards that have been issued but are not yet effective.

2 In this chapter, references to "interim" refer to half-year period, and where applicable, quarterly and other interim periods.

3 Non-exhaustive examples of key financial ratios include **(i) profitability ratios:** turnover and net profit growth, gross/net profit margin, net profit margin before interest and tax, return on equity/total assets; **(ii) liquidity ratios:** current ratio and stock/debtors'/creditors' turnover days; and **(iii) capital adequacy ratios:** gearing ratio, debt to equity ratio and interest coverage. For the purpose of calculating the gearing ratio and debt to equity ratio, (a) "debts" shall include payables incurred not in the ordinary course of business; and (b) "net debts" shall include debts net of cash and cash equivalents.

(a) Related party loans, advances, guarantees and/or pledges of securities to/from an applicant including the terms and the plans for these arrangements after listing (with reasons, where applicable) (e.g. whether the related party balances are trade/non-trade in nature and whether such arrangements will be settled/released before listing).

(b) Material related party transactions during the track record period, and the directors' views on whether they were conducted on an arm's length basis[4].

(c) Applicable tax rate, preferential tax treatments, tax benefits or special tax arrangements (e.g. transfer pricing arrangement with adviser's view) (and their expiry dates)[5].

(d) Disputes/unresolved issues with the tax authorities, the provisions made or reasons for not doing so.

(e) Any material events after the track record period (e.g. adverse changes affecting sales or supply chain, change in capital structure such as share subdivisions/consolidations, and declaration and payment of dividends).

Note: The sponsor and the reporting accountants should ensure that proper adjustments, including any retrospective adjustments required under the applicable accounting standards (e.g. earnings per share), and appropriate disclosures, are made in the listing document and the accountants' report.

(f) An analysis by age group of trade payables, trade receivables and major categories of inventories and subsequent settlement/realisation, and the basis of provision or no provision for/write-off of trade receivables and inventories.

(g) Where there is a segregation of certain financial data from the books and records of a related company to derive the revenue, income and expenditure attributable to the applicant's combined results for the track record period:

(1) A description on how the financial results attributable to the applicant are segregated and the underlying bases; and

(2) A confirmation from the applicant and its directors that the segregation is fair, reasonable, complete and accurate.

(h) Details of impairment testing for goodwill/intangible asset with indefinite useful life/intangible asset not yet available for use, if material:

[4] If such related party transactions have the potential to distort an applicant's track record results or make the historical results not reflective of its future performance, the applicant should (i) provide adequate disclosure on the impact of these transactions on the track record results; and (ii) if these transactions will cease upon listing, disclose the potential impact of the cessation on the applicant's future performance.

[5] If expiry is within one year, the applicant should disclose a risk factor in the "Risk Factors" section.

	(1) Key parameters; (2) Sensitivity analysis and headroom (i.e. by how much the recoverable amount would exceed the carrying amount of the cash generated unit when those key parameters have been applied in the impairment testing for the track record period); and (3) Whether a reasonably possible change in key parameters would cause the carrying amount of the cash generating unit to exceed its recoverable amount. *"Summary" and "Financial Information" Sections* (i) Expected dividend pay-out ratio, significant distributions and other material matters. (j) Succinct description of dividend policy, including (i) factors to consider (if future dividends are subject to the board's discretion); or (ii) a statement that the applicant does not have any dividend policy (if no current intent to pay any dividends). (k) The applicant's ability to pay dividends in view of its accumulated losses and/or net liabilities positions (with the support of a legal opinion) in the "Distributable Reserves" sub-section. (l) Total amount of listing expenses (including underwriting commission), and the accounting treatment thereof (e.g. charged to the income statement or equity, and the relevant time periods), with a breakdown setting out (i) underwriting-related expenses (e.g. commissions and fees); and (ii) non-underwriting-related expenses, which should be further categorised into (a) fees and expenses of legal advisers and accountants; and (b) other fees and expenses[6].
Liquidity, financial resources, indebtedness and capital structure	*Liquidity Disclosure* (i) A statement (or an appropriate negative statement) of the indebtedness as at a specified most recent practicable date ("**Most Recent Practicable Date**")[7], and a discussion on liquidity, financial resources and capital structure (together, "**Liquidity Disclosure**"), including: (a) Statement of financial position, income or cash flow items relevant for assessing liquidity, the respective amounts and certainty of cash flows. (b) Amounts of total committed and unrestricted available facilities and interest rates for each major type of borrowings (or an appropriate negative statement), maturity analysis of financial liabilities and how an applicant manages the liquidity risk.

[6] Where any of the above fees or expenses are/expected to be high, an applicant should, at the time of the listing application (and when there is any subsequent material change), submit a detailed breakdown and the reasons therefor.

[7] The Most Recent Practicable Date is a date no more than two calendar months before the date of the AP or the final listing document. The relevant information in AP can be in brackets to indicate that it will be updated.

(c) Major composition of net current assets (liabilities) position as at the Most Recent Practicable Date, and a discussion on this position.

(d) Major sources and uses of cash with an analysis of the material changes in the underlying drivers specific to an applicant's business.

(e) Cash flow mismatch, if any, specific to an applicant's business (e.g. in the construction industry, payment for construction costs and collection from customers; and for financial leasing business, repayment of borrowings and collection from customers).

(f) Source of, and minimum funding required to, meet existing contractual obligations and other capital needs and maintain current operations; and existence and timing of committed and estimated amount of capital and other major expenditures[8].

(g) Potential impact of known trends, uncertainties or changes in external factors on an applicant (e.g. implementation of new regulatory requirements, changes in macroeconomic environment or policies and project status).

(h) Material covenants and undertakings on outstanding debts, guarantees, pledge of key assets or other contingent obligations, and breaches during the track record period and up to the LPD (and the related consequences), and the ability to undertake additional debt or equity financing as a result of the breaches (or an appropriate negative statement).

Note: The LPD should be no more than ten calendar days before the date of the AP or the final listing document.

(i) Material external financing plans, including the amounts (or a meaningful range), the nature and terms of the financing, the likelihood of obtaining the financing on acceptable terms; and the expected changes in the mix and relative cost of capital resources.

Working Capital Sufficiency

(ii) An applicant with net current liabilities/negative operating cash flows for most of the track record period, significant capital commitments, high gearing ratios, and/or significant reclassification of long-term debts to short-term debts should include enhanced disclosure on its working capital sufficiency, including:

(a) The basis of the directors' view on an applicant's working capital sufficiency and upon which the sponsor concurs with such view (with stress tests on the underlying key assumptions, if material).

[8] An applicant which will incur significant capital expenditures in the near future should also disclose information such as the sources and amounts of funds earmarked, estimated cash payments and receipts in each of the two years after listing (with key assumptions and basis thereof).

(b) Directors' confirmation on whether an applicant had material defaults on trade and non-trade payables and borrowings, and/or breaches of covenants during the track record period and up to the date of the listing document (see paragraph 12 below).

Note: The sponsor's advanced draft letter on working capital sufficiency required to be submitted with the AP does not have to include a confirmation that persons or institutions providing finance have stated in writing such facilities exist. Such confirmation is only required in the sponsor's final letter submitted before the finalisation of the listing document.

Adoption of Other Accounting Standards

4. MB Rule 4.11 (GEM Rule 7.12) sets out the accounting standards in conformity with which an applicant's accountants' report must normally be drawn up (the "**Acceptable Accounting Standards**"). The following provides guidance to an applicant proposing to adopt accounting standards other than the Acceptable Accounting Standards.

5. In exceptional circumstances, the Exchange may grant a waiver to allow an applicant to adopt other accounting standards, subject to, at a minimum, the following conditions:

   (i) In its **listing document**, include (a) a description of the material differences between the other accounting standards adopted and the Acceptable Accounting Standards; and (b) a reconciliation statement setting out the financial impact of any material difference between those financial statements and financial statements prepared using HKFRS or IFRS ("**Reconciliation Statement**"), which should at least be reviewed by the reporting accountants or auditors[9];

   (ii) In **its annual and interim[10] reports after listing**, include a Reconciliation Statement; and

   (iii) Revert to the Acceptable Accounting Standards if it de-lists from the jurisdiction of that alternative standard[11]. Such requirement is applicable for any annual and interim financial statements that fall due under the Listing Rules, and are published, after the first anniversary of the date of its de-listing[12].

6. In case of a spin-off where the Exchange has granted the waiver set out in paragraph 5 above to the applicant, the parent of an applicant should reproduce, in its circular (if any) for its spin-off proposal, the applicant's Reconciliation Statement if (i) the parent is listed on the Exchange; and (ii) the applicant adopts different accounting standards from its parent.

[9] Where the relevant financial statements (e.g. interim financial statements) are not audited or reviewed (in accordance with ISRE/HKSRE 2410) by auditors, the Reconciliation Statement included therein should be reviewed by auditors in accordance with a standard comparable to ISAE/HKSAE 3000. For the avoidance of doubt, the Reconciliation Statement requirement is not applicable to applicants incorporated in Mainland China pursuant to MB Chapter 19A (GEM Chapter 25).

[10] A secondary listed issuer with U.S. listing is not required to prepare a Reconciliation Statement in respect of its U.S. GAAP quarterly financial statements which are published pursuant to overseas rules and regulations.

[11] Except for issuers incorporated in a member state of the European Union which have adopted EU-IFRS.

[12] Primary Listing: note 4 to MB Rule 19.14 (GEM Rule 7.14) (accountants' reports) and note 4 to MB Rule 19.25A (GEM Rule 24.18A) (annual/interim financial statements). Secondary Listing: note 4 to MB Rule 19C.10D (accountants' reports) and note 4 to MB Rule 19C.23 (annual/interim financial statements).

7. Materiality is not defined in the Listing Rules nor may it necessarily be defined in monetary terms. An applicant should exercise its judgement in assessing what constitutes material differences for investors taking into account all relevant circumstances of the applicant with advice from auditors and/or reporting accountants.

8. The Reconciliation Statement should:

   (i) Be appropriate and meaningful and enable investors to make an informed assessment of the applicant's financial position and financial performance;

   (ii) Include, at a minimum, a line-by-line reconciliation of the applicant's financial information showing the material differences between its accounting policies under the alternative financial reporting standards and HKFRS or IFRS, with an explanation of such differences. Comparative information should be provided for the reconciliation; and

   (iii) Cover the entire track record period if the accountants' reports are to be included in a listing document.

Stub Period Financial Information

9. The latest financial period reported on by the reporting accountants must not[13] have ended more than six months before the date of the listing document under MB Rule 8.06 (GEM Rule 11.11) ("**Stub Period Requirement**").

   Note: The Stub Period Requirement and other timing requirements[14] apply to both the listing document and any supplemental listing document.

10. The stub period financial information must at least include the information under paragraph 37 of MB Appendix D2 (GEM Rule 18.55). For the purpose of this sub-section, the term "**Stub Period Comparatives**" refers to comparative figures to the stub period financial information.

11. Where stub period financial information is required, an applicant should disclose in the listing document:

    (i) A comparison of income statements and cash flow statements for the stub period and the Stub Period Comparatives (as defined above). The Stub Period Comparatives must be at least reviewed by the reporting accountants[15] with their review conclusion included in the accountants' report; and

    Note: For the avoidance of doubt, stub period financial information must be audited by the reporting accountants.

[13] The Exchange will **not** consider factors such as (i) market conditions; (ii) non-compliance with the Stub Period Requirement that will unlikely cause prejudice to the investing public; (iii) unexpected delay of hearing date by the Exchange; and (iv) unduly burdensome to update the accountants' report, to be grounds for not complying with the Stub Period Requirement and other timing requirements.

[14] For all reports issued by experts (e.g. property valuation report under MB Rule 5.07 (GEM Rule 8.30) and competent person report under MB Rule 18.24(2) (GEM Rule 18A.24A(2))) (See **Chapter 3.14** for details).

[15] In accordance with ISRE/HKSRE 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the IAASB/the HKICPA. For applicants incorporated in Mainland China, refer to CSRE 2101 "Engagements to Review Financial Statements" issued by the CICPA.

(ii) A discussion and analysis of performance, material trends and seasonal fluctuations during the years and periods covered by the accountants' report.

Material Changes after the Track Record Period

12. An applicant must disclose material adverse changes to its financial and/or trading position after the track record period (e.g. the technological, market, economic, legal or operating environment in which an applicant operates).

Non-exhaustive examples of material adverse changes:



Financial Performance

(i) Adverse changes in the applicant's operating results, financial position, cash flows and prospects, market interest rates, prices of key products sold/services provided and purchase prices of key raw materials.

Business Conditions



(ii) Loss of major customers/suppliers or evidence of their deteriorating financial condition.

(iii) Matters that affect sales, negative publicity, or material product returns/recall requests.

(iv) International sanctions on countries/companies with which an applicant conducts business.

Operational Conditions

(v) Loss of key permits/licences/patents or other intellectual property.



(vi) Change in laws and regulations or government subsidising policies.

(vii) Evidence of obsolescence of or physical damage to key production units/assets/inventories.

(viii) Litigation/potential litigation from stakeholders, or any adverse developments in existing material litigation or claims.

(ix) Loss of key personnel, significant labour disputes/strikes.

Disclosure requirements	*"Summary" and "Financial Information" Sections* (i) A statement by the directors on any material adverse changes to financial and/or trading position after the track record period (or an appropriate negative statement) covering the period from the end of the track record period up to the date of the listing document. *"Summary", "Risk Factors" and "Financial Information" Sections* (ii) Qualitative or quantitative disclosure on financial/operating data (e.g. revenue, gross profit/loss, gross profit/loss margin, average selling price and sale volume) with commentary and a corresponding risk factor on the

adverse changes after the track record period and their impact on an applicant.

(iii) Quantitative information (other than information that constitute a profit forecast/estimate, see paragraphs 14 and 15 below) relating to financial performance after the track record period must be reviewed by the reporting accountants [16], with a statement confirming the same in the listing document.

Publication of Material Financial Results by an Applicant, any of its Subsidiaries or its Holding Company

13. If an applicant, any of its subsidiaries or its holding company has published unaudited interim financial statements after the track record period of the applicant pursuant to the rules and regulations of a regulatory authority (e.g. an exchange), and such information is material to an applicant:

(i) The applicant must disclose[17]:

(a) Its (or its subsidiary's) revenue and income information for the unaudited interim period;

(b) Major line items/components of its (or its subsidiary's) assets, liabilities, equity, income, expenses and cash flows as presented in its latest audited financial statements (in a condensed form);

(c) Comparative statements for the corresponding period in the prior financial period or prior year-end balance, as appropriate;

(d) Selected note disclosure explaining events and changes that are significant to its (or its subsidiary's) operating results and financial position since the end of the track record period of the applicant; and

(e) Description of any material variation between its (or its subsidiary's) accounting principles, practices and methods used in preparing such unaudited interim financial information and those prepared using the Acceptable Accounting Standards; and quantification of any material variations.

(ii) The unaudited interim financial information must (i) be at least reviewed by an auditor in accordance with the standards established by the HKICPA or the IAASB[18]; and, (ii) disclose (as part of the review) the financial effect of the material differences between the unaudited interim financial information and financial statements prepared using the Acceptable Accounting Standards.

(iii) Given that the publication of the unaudited interim financial information is due to the requirement of the relevant authority and the disclosure of such information is to ensure equal dissemination

[16] The disclosure of the comparative financial information to such financial information is not required, but if disclosed, the sponsor should perform sufficient due diligence on such disclosure.

[17] To clarify, this disclosure will not be required at the time of submission of listing application if, in accordance with the listing timetable outlined in the application materials, the unaudited interim financial information will either be removed from, or updated in, the final listing document.

[18] HKSRE/ISRE 2400 "Engagement to Review Historical Financial Statements" or HKSRE/ISRE 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity". For applicants incorporated in Mainland China, refer to CSRE 2101 "Engagements to Review Financial Statements" issued by the CICPA.

of an applicant's financial information, a post-listing audit on the unaudited interim financial information discussed above is not required.

Financial Information Constituting Profit Forecast/Estimate

14. If an applicant discloses its unaudited net profit/loss figure or other financial figures which can explicitly or implicitly result in disclosure of the estimated level of profits/losses after the track record period (e.g. disclosure of both revenue and net profit margin), this will constitute a profit forecast/estimate and the applicant is required to comply with the specific requirements under MB Rules 11.16 to 11.19 (GEM Rules 14.28 to 14.31).

15. Generally, the inclusion of a profit forecast/estimate in a listing document is a commercial decision. However, the Exchange may require the applicant to include a profit/loss estimate in the listing document in certain circumstances (e.g. where an applicant recorded significant deteriorating financial performance after the track record period). In addition, there should not be any statement that mitigates the directors' responsibility for the forecast/estimate.

Special Dividend

16. If an applicant proposes to pay a special dividend to its pre-listing shareholders ("**Special Dividend**") after listing based on the distributable profits for any period before listing which includes an unaudited period ("**Pre-Listing Period**"), it should comply with the following requirements:



Special audit requirements

(i) Perform a post-listing special audit ("**Special Audit**") to ascertain the accuracy of the distributable profits for the Pre-Listing Period and the amount of the Special Dividend.

Disclosure requirements	(i) An applicant should disclose: (a) The Pre-Listing Period, expected dividend payout ratio, parties entitled to the Special Dividend, timing of payment and source of funding; (b) That it will (1) perform the Special Audit on the Pre-Listing Period (with the expected timing of completion); and (2) announce the amount of Special Dividend payable determined by the Special Audit; and (c) A profit forecast in the listing document if it discloses additional information on the Special Dividend, such that its estimated level of profits/losses since the latest audited period end can be derived therefrom.

Presentation of Non-GAAP Measures

17. The following provides guidance on the presentation of non-GAAP measures in a listing document.

18. Non-GAAP measures are numerical measures of historical performance, financial position or cash flow that are not GAAP measures based on HKFRS or IFRS or CASBE (e.g. EBITDA, adjusted EBITDA and adjusted net profit).

19. An applicant and its sponsor should ensure that the presentation of non-GAAP measures is not misleading (see the IOSCO's "Statement on Non-GAAP Financial Measures"[19]). The following principles enhance the reliability and comparability of non-GAAP measures and minimise misleading disclosure:

Defining the non-GAAP measure

(i) Define each non-GAAP measure, reflect its composition, and explain the basis of calculation. The information that applicants provide regarding non-GAAP measures should be readily accessible (e.g. accompanying the non-GAAP measures) so that readers can easily find it when reading the measures.

(ii) Distinguish non-GAAP measures from GAAP measures by appropriate labelling (e.g. adjusted net profit (non-GAAP measure) and adjusted net profit margin (non-GAAP measure)).

(iii) Do not characterise or label a measure as EBIT/EBITDA if it is not, in which case such measure should be distinguished (e.g. adjusted EBIT/EBITDA (non-GAAP measure)).

(iv) Reasons for presenting the non-GAAP measure including usefulness of the information and the additional value provided to investors.

(v) Highlight that the non-GAAP measure does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

Unbiased purpose

(i) Non-GAAP measures should not be used to avoid presenting adverse information to the market. For example, if non-recurring expenses are excluded, the non-recurring gains must also be excluded (i.e. do not "cherry pick" non-GAAP adjustments to achieve the most positive measure).

(ii) Do not use individually tailored accounting principles, including certain adjusted revenue measures (e.g. a non-GAAP measure that reflects revenue recognised over the service period under GAAP on an accelerated basis as if the applicant earned revenue when it billed its customers).

Ensure prominence of presentation of GAAP measures over non-GAAP measures

(i) Presentation of non-GAAP measures, including information provided for reference, should not confuse or obscure the presentation of GAAP measures.

(ii) GAAP measures should always be presented before the non-GAAP measures if they appear in the same section of a document. For example, the extract of the relevant GAAP results in the discussion of the results of operations should be presented immediately before the non-GAAP measures.

[19] The "Statement on Non-GAAP Financial Measures" was published by the IOSCO in June 2016.

(iii) Do not present non-GAAP measures with more prominence, in more details or with greater emphasis than the GAAP measures. In any event, presenting a full non-GAAP income statement is prohibited.

(iv) Disclosures related to non-GAAP purpose and use should not state or imply that the non-GAAP measures are superior to, provide better information about, or more accurately represent the results of operations than GAAP measures.

Reconciliation to comparable GAAP measures

(i) The reconciliation should:

(a) Be quantitative.

(b) Be clear, concise and appropriately labelled.

(c) Begin with GAAP measures and reconciled to non-GAAP measures with reconciling items derived from the financial statements reported in GAAP (when a reconciling item cannot be extracted directly from the financial statements, show how this figure is calculated).

(d) Explain the nature of each adjustment.

Consistent presentation of non-GAAP measures

(i) Consistently present non-GAAP measures for comparative periods.

(ii) Explain the change in composition of the non-GAAP measures (if any), and provide comparative figures for the prior period with such figures adjusted to reflect the change in composition.

(iii) Explain the reason why a particular non-GAAP measure is no longer presented (if any).

(iv) An applicant should consider whether its non-GAAP measures are consistent with standard measures used in its industry or by its peers, and if not, state such fact, and explain the differences and how they may affect comparability with other companies.

Normal, recurring, cash operating expenses

(i) Avoid adjusting items that are (a) reasonably likely to recur in the foreseeable future, or are activities that affected the entity in the recent past and describing them as non-recurring, infrequent or unusual; or (b) normal and cash operating expenses necessary to generate revenue or normal and recurring charges.

(ii) Adjustments that are non-cash, non-recurring, and/or non-operating in nature (e.g. listing expenses, fair value change of convertible preferred shares which will be converted into equity upon listing, and share-based payments) are common adjusting items when presenting adjusted net profit (non-GAAP measure). The Exchange will request an applicant to remove any adjusting item which is considered as normal, recurring, cash operating expenses necessary to business operations (e.g. impairment of trade receivables relating to an applicant's normal business). In evaluating what is normal and/or recurring in nature, the applicant should consider the nature and effect of the non-GAAP adjustment and its relevance on business operations.

Treatment of tax adjustments

(i) Present reconciling adjustments on a gross basis before tax and avoid double counting.

(ii) Present and explain income taxes as a separate adjustment.

20. Sponsor should perform due diligence, and reporting accountants and other experts should perform appropriate procedures, to ensure accurate presentation of non-GAAP measures, including (i) the accuracy of the reconciling items; and (ii) the reasonableness of the adjustments (e.g. whether the adjustments would result in double counting).

21. The above guidance should also apply to listed issuers which present non-GAAP measures in any documents pursuant to the Listing Rules (e.g. financial reports, announcements and circulars).

Trading Record and Financial Eligibility

22. See **Chapter 1.1A** for guidance on the requirements on (i) trading record and financial eligibility; and (ii) waiver application from strict compliance with MB Rule 4.04(1) (GEM Rules 7.03(1) and 11.10).

3.12 USE OF PROCEEDS

1. The "Use of Proceeds" section in a listing document should include the specific uses for listing proceeds and inform investors of an applicant's future plans and prospects.

2. Where an applicant has no current or specific plans for a material portion of the proceeds (generally more than 10%), the listing document must include a statement to that effect and discuss the principal reasons for the offering. References to "working capital" or "general corporate purposes" do not constitute current or specific plans for the proceeds unless a reasonably detailed explanation is given[1].

Guidance on Disclosure

3. The table below provides some general guidance:

Amount and allocation of proceeds	(i) Breakdown of the use of proceeds and the amounts of net proceeds to be received under different circumstances (i.e. when offer price is fixed at low-end, mid-point and high-end of the offer price range and with and without exercising the over-allotment option).
Expansion plans	(i) Commercial reasons for and details of each expansion plan (e.g. justify the significant enhancement of production capacity, particularly where the historical utilisation rate was low). (ii) Meaningful breakdown of listing proceeds earmarked for each expansion plan (e.g. land acquisition, purchase of plant and equipment, increase in head-count) and the expected timing for the use of proceeds. (iii) If material additional funding is necessary, the amounts needed and funding sources for each specified purpose.
Acquisitions and investments	(i) Acquisition or investment strategies, qualitative and quantitative criteria for selecting targets, the estimated number of potential targets available (with basis and supported by view of industry consultant), the status of any related negotiations, and the potential benefits of such acquisitions or investments. (ii) Terms of any proposed acquisition or investment, the identity of the vendor, the identity and business nature of the target, and the amount and basis of the consideration involved.
Discharge of indebtedness	(i) Purpose, interest rate and maturity of debt.

[1] For example, the Exchange considers the allocation of proceeds as "working capital" by an applicant in the banking industry acceptable if the proceeds are to be used to increase capital base in order to meet certain statutory capital requirements for business expansion.

Sale shares	(i) Number of sale shares in the offer, the amount of net proceeds received by the selling shareholder and that the sale proceeds do not belong to an applicant.

4. For proceeds that are not immediately used in accordance with the specified plans, an applicant should only deposit such proceeds into short-term interest-bearing accounts at licenced commercial banks and/or other authorised financial institutions (as defined under the SFO or applicable laws and regulations in other jurisdictions). Appropriate disclosure should be made in the listing document.

Post-listing Requirement

5. An applicant may change the use of proceeds due to certain contingencies if such contingencies, with alternative use of proceeds, are disclosed in the listing document. Any material change of use of proceeds is price sensitive. An applicant must announce such changes on a timely basis.

3.13 OFFERING

1. This chapter covers disclosure requirements for the offering related sections of a prospectus, which typically include "Underwriting", "Structure of the Offering" and "How to Apply for Hong Kong Offer Shares" sections.

Underwriting

2. An applicant would typically enter into underwriting agreements for the public subscription tranche and the placing tranche to comply with the requirement that the offer for subscription must be fully underwritten. The salient terms of the underwriting agreements and other material information should be disclosed in the prospectus:

Underwriting agreements	(i) Salient terms of underwriting agreements, including: (a) Date and parties involved; (b) Conditions; (c) Grounds for termination; and (d) Fees. (ii) Where a hard underwriting agreement[1] is entered, the amount underwritten together with other salient terms of the hard underwriting agreement. *Note: If a hard underwriting agreement is entered after issuance of prospectus, the applicant is required to issue a supplemental prospectus to disclose such information.*
Undertakings	(i) Lock-up undertakings (e.g. undertakings under MB Rule 10.07 (GEM Rule 13.16A)) (see **Chapter 4.13** for lock-up requirements). (ii) Undertakings by the applicant. (iii) Undertakings by selling shareholders (if any).
Disclosure of interest	(i) Hong Kong Public Offer underwriter's interest in the applicant. (ii) Sponsor's interest in the applicant. (iii) Sponsor's independence declaration (where applicable).

[1] Occasionally, an applicant may enter into a "hard" underwriting agreement under which the underwriter agrees to commit to purchase a fixed value of shares not taken up under the offer in public subscription tranche and/or the placing on the condition that the final offer price is fixed at the bottom end of an indicative offer price range. The applicant would agree to pay a fee for the hard underwriting arrangement in addition to the normal underwriting fees payable under the usual "soft" underwriting agreement. Hard underwriting arrangement usually appears when the demand for offer shares is expected not to be strong, and therefore the applicant is willing to pay an extra fee to secure a certain amount of committed underwriting.

Commissions and expenses	(i) The amount and ratio of fixed and discretionary fees of all syndicate members[2]. (ii) Basis of determining commissions and expenses.
Others	(i) Activities by syndicate members.

Structure of the Offering

3. The "Structure of the Offering" section should contain the following information:

   (i) Number of shares under the offering before and after exercise of the over-allotment option;

   (ii) Number of shares under different tranches of the offering (e.g. public subscription tranche, placing tranche, employee share offer and any assured entitlement);

   (iii) Mechanism to determine offer price;

   (iv) Allocation basis;

   (v) Reallocation and clawback mechanism (see **Chapter 4.14** for requirements on reallocation and clawback);

   (vi) Over-allotment, stabilisation, stock borrowing arrangement, offer size adjustment option and other similar arrangements;

   (vii) Conditions of the offer;

   (viii) Dealing arrangements; and

   (ix) Board lot size (value of a board lot should not be lower than HK$2,000)[3].

How to Apply for Hong Kong Offer Shares

4. The "How to Apply for Hong Kong Offer Shares" section in a prospectus provides information on the application procedures, which typically includes:

   (i) Important notice to investors on electronic application process;

   (ii) Who can apply for the offer shares;

   (iii) Application channels;

   (iv) Information required to apply for the offer shares;

   (v) Permitted number of offer shares for application;

   (vi) Prohibitions against multiple applications;

[2] See MB Rule/GEM Rule Appendix D1A paragraph 3B for requirements on fees.
[3] Guide on Trading Arrangements for selected Types of Corporate Actions

(vii) Terms and conditions of an application;

(viii) Publication of application results;

(ix) Circumstances in which the subscriber will not be allotted offer shares;

(x) Despatch/ collection of share certificates and refund of application monies;

(xi) Severe weather arrangements;

(xii) Admission of the shares into CCASS; and

(xiii) Personal information collection statement.

5. See "How to Apply for Hong Kong Public Offer Shares" for a template of the section.

6. **Annex B.6** sets out the FAQs for this chapter.

3.14 MISCELLANEOUS

1. This chapter provides guidance on the disclosure of various matters in a listing document, including an applicant's name, listing document cover, non-disclosure of confidential information and other sections of a listing document.

Guidance on Applicant's Name and Listing Document Cover

2. The following sets out the general principles governing an applicant's name and a listing document cover:

Applicant's name	(i) Applicant's name is essentially a commercial matter, but should accurately reflect an applicant's business and not be misleading (e.g. the abusive use of "Cloud" or "AI" during a technology boom or "green" during increasing awareness of environmental concerns when the applicant is not engaged in such business).
Listing document cover	(i) Include name of sponsor, stock code and identities of OC/lead managers/coordinators/bookrunners/underwriting syndicate. (ii) In assessing whether a listing document cover is acceptable, the Exchange would consider: (a) The likely overall impression given by it; (b) The appropriateness of the use of illustrations or examples to highlight certain disclosure in a listing document; (c) Whether the illustrations shown on a listing document cover are properties/employees of an applicant; and (d) The usage of graphs and other diagrams, and if they depict a fair representation of an applicant's position with all relevant information provided. (iii) Applicant's logo should be registered, and if not, the legal advisers' view, with basis, on the likelihood that the logo may infringe other parties' intellectual property right and details of relevant steps taken to mitigate the associated risk (see paragraph 3 below for the documentary requirement). (iv) Unacceptable matters on the front and/or back of listing document cover include, but are not limited to: (a) Products, buildings, premises, trademarks, and logos that are not part of the properties of an applicant; (b) Images of a globe or continents, unless an applicant has substantial global or international presence;

(c) Any design that may present the offering's favourable characteristics as certain or more probable (e.g. upward arrows on graphical information);

(d) Artistic impressions of properties which have not yet been completed; and

(e) Any design that gives more prominence to a sponsor/OC/lead manager/bookrunner/underwriting syndicate than to an applicant (e.g. by using an exceptionally large font size for their names).

Documentary requirement

3. Before noon on the day when an applicant would like to obtain the Exchange's clearance on a listing document cover, a confirmation from the applicant or the sponsor should be submitted on (i) the applicant's logo; and (ii) the listing document covers (both English and Chinese versions), both of which should meet the principles set out in paragraph 2 above.

4. The Exchange will issue a separate letter confirming an applicant's stock code, Chinese and English stock short names and that it has no further comment on the listing document covers.

Guidance on Non-disclosure of Confidential Information

5. The Exchange only accepts non-disclosure of confidential information under special situations. An applicant must demonstrate good cause why the information cannot be disclosed. All requests for non-disclosure of confidential information are considered on a case-by-case basis.

6. Factors considered by the Exchange in determining whether to allow an applicant not to disclose certain confidential information in a listing document include:

   (i) Whether the inconvenience caused to an applicant by the disclosure outweighs the investors' information needs;

   (ii) Whether the alternative information disclosed in the listing document provides investors with sufficient, true and accurate information to enable them to make a properly informed assessment of an applicant and its securities as a whole; and

   (iii) The Directors' views and the sponsor's obligations under MB Rule 3A.11 (GEM Rule 6A.11) and MB Appendix/GEM Appendix E1 on whether a listing document contains all material information to enable a reasonable investor to make a properly informed assessment of an applicant and its securities.

7. The Exchange would expect the sponsor to have access to all information of an applicant necessary for its due diligence process. If a sponsor is denied access to certain information by law ("**Restricted Information**"), the sponsor must demonstrate the steps it took to fulfill its obligations under MB Chapter 3A (GEM Chapter 6A) despite not having access to the Restricted Information. The Exchange would not accept a sponsor confirming completion of the due diligence process with a qualification solely due to an applicant's internal policy on access restriction for confidential information, even if alternative due diligence work has been performed.

Guidance on Other Sections of a Listing Document

8. A listing document should include the following, where applicable:

Warning	(i) Disclaimer and warning statements to advise readers of the legal status of the publication of a listing document.
Important	(i) Name of an applicant and sponsor, stock code, number of offer shares, offer price, identities of OCs, lead managers, coordinators, bookrunners and/or underwriting syndicate.
Expected timetable	(i) Dates of events on the Hong Kong public offering.
Contents	(i) Heading and page number of each section.
Definitions and Glossary	(i) All defined terms and definitions of technical terms in plain language. (ii) For each entity disclosed, the date and place of incorporation, current ownership structure and relationship with an applicant, shareholders or connected persons or the fact that it is an independent third party. "Independent third party" must be defined with reference to the "connected persons"[1] definition under the Listing Rules. (iii) Relationship and details of the connectedness of connected persons with an applicant.
Waivers and exemptions from compliance with the Listing Rules/C(WUMP)O	(i) All applications for waivers, exemptions and/or consents under the relevant Listing Rules/C(WUMP)O with detailed basis, reasons and waiver conditions as set out in other chapters and any guidance given by the Listing Division or Listing Committee in response to pre-IPO enquiries, and cross-refer[2] to other relevant sections of a listing document.
Information about the listing document and Global Offering	(i) Directors' (including any proposed directors) responsibility statement for the contents of listing document, and for non-Hong Kong issuers, approval required for an applicant seeking an overseas listing (e.g. completion of PRC filing requirements with the State Council and China Securities Regulatory Commission (CSRC), if applicable).

[1] For the purpose of the definitions of "close associate" and "associate", the interest of a director, chief executive or substantial shareholder, or any of his family interests/immediate family members includes all beneficial interests directly or indirectly held by any of these parties. This would include the trustee of any trust of which a company beneficially controlled by a director, chief executive or substantial shareholder, or any of his family interests/immediate family members is a beneficiary. Similarly, where the substantial shareholder is a corporation, "close associate" and "associate" include the trustee of any trust of which a subsidiary of the substantial shareholder is a beneficiary.

[2] An applicant should cross-refer to other relevant sections (e.g. "Connected Transactions" and "Structure of the Global Offering" sections for waivers from MB Chapter 14A (GEM Chapter 20) and MB Practice Note 18 (GEM Practice Note 6), respectively) of a listing document, and disclose the statement along the line that "further information is disclosed in the relevant section".

	(ii) Name of selling shareholder and number of shares, restrictions on offer and sale of shares, application for listing on the Exchange, and that shares will be eligible for admission into CCASS. (iii) Professional tax advice recommended, registration of subscription, purchase and transfer of shares for PRC issuers, share registrar and stamp duty, and exchange rate conversion.
Directors, supervisors and parties involved in the Global Offering	(i) English and Chinese names, full residential addresses and nationalities of all directors and supervisors, and cross-refer[3] to the "Directors, Supervisors and Senior Management" section. (ii) Identities, addresses and qualifications of the professional parties (including sponsor, legal advisers to an applicant, sponsor and underwriters, respectively, reporting accountants, valuer, industry consultant, compliance adviser, sponsor-OCs [4], OCs [5], global coordinators, bookrunners, lead managers, any other syndicate members, underwriters and receiving banks).
Corporate information	(i) Addresses of an applicant's registered office, headquarter, principal place of business in Hong Kong and an applicant's website. (ii) Identities and addresses of the company secretary (with his/her professional qualifications), authorised representatives, share registrar and principal bankers. (iii) Members of the audit committee, remuneration committee, nomination committee and other committees with an indication of the chairperson for each committee.
Share capital	(i) Authorised share capital, number of different types of shares[6] and percentage of the total number of shares for each type of shares, ranking of each type of shares, and details of weighted voting right structure (if applicable). (ii) Circumstances under which general meeting and class meeting are required, general mandate to issue and repurchase shares, and share scheme. (iii) For PRC issuers: (a) The procedures for the conversion of unlisted/domestic shares to H shares, including that such conversion may be subject to the filing and approval requirements of the relevant authorities.

[3] An applicant should disclose the statement that "further information is disclosed in the 'Directors, Supervisors and Senior Management' section".

[4] Only applicable to a MB applicant whose listing involves bookbuilding activities (e.g. placing of shares).

[5] Where an intermediary falls within the definition of "sponsor-OC" or "OC" under the Listing Rules, it shall be identified in the "Directors, Supervisors and Parties involved in the Global Offering" section as a "sponsor-OC" and/or an "OC" in addition to any of their other titles.

[6] For example, A shares, B shares, H shares, and domestic shares.

	(b) Information on unlisted/domestic shares to be listed on the Exchange[7].
Substantial shareholders	(i) Identities of and relationship among the substantial shareholders. (ii) Number of shares and percentage of issued share capital held by each substantial shareholder as at the LPD and upon listing in tabular form.
Accountants' report	(i) Financial information with three-year trading record period for a MB applicant (or two-year for a GEM applicant) and a stub period (if applicable) in audited form[8], and the latest financial period reported must not have ended more than six months before the date of the listing document[9] (see **Chapter 6.2** for the timing requirement of financial information for AP). (ii) Acquisitions of subsidiaries and businesses conducted during or after the track record period under MB Rules 4.04(2), 4.04(4), 4.05A and 4.28 (GEM Rules 7.03, 7.04A and 7.30). (iii) Reconciliation statements required under MB Rule 19.14 (primary listing) and 19C.10D (secondary listing) (GEM Rule 7.14 (primary listing)).
Unaudited pro forma financial information	(i) Unaudited pro forma adjusted net tangible assets (except in introduction case), and unaudited adjusted pro forma forecast earnings per share (where a profit forecast is included)[10]. (ii) Financial information under MB Rules 4.28, 4.29 and paragraph 21 of MB Appendix D1A (GEM Rules 7.30, 7.31 and paragraph 21 of GEM Appendix D1A), where applicable.
Profit forecast (where a profit forecast is included)	(i) Financial information[11] with bases and assumptions, a statement that a profit forecast may be updated, and letters from the sponsor and the reporting accountants.
Property valuation report	(i) Information required under MB Chapter 5 (GEM Chapter 8) in final form, and effective valuation date should not be more than three months before the date of the listing document[12] (see **Chapter 6.2** for the timing requirement of property valuation report for AP).

7 Applicants can apply to list all or any portion of its unlisted/domestic shares on the Exchange as H shares in advance of any proposed conversion. This is to ensure that the conversion process can be completed promptly upon notice to the Exchange and the shares can be delivered for inclusion in the Hong Kong share registrar. As any listing of additional shares after the applicant's initial listing is ordinarily considered by the Exchange to be a purely administrative matter, the Exchange does not require prior application as a condition for the conversion, listing and sale of shares in the form of H shares.

8 Or advanced draft form for the purposes of submission of listing application.

9 Please refer to MB Rule 8.06 (GEM Rule 11.11) for further details.

10 For the purposes of submission of listing application, financial information in an advanced draft form – MB Rules 4.28, 4.29 and paragraph 21 of MB Appendix D1A (GEM Rules 7.30, 7.31 and paragraph 21 of GEM Appendix D1A).

11 Please refer to MB Rules 11.16 to 11.19 (GEM Rules 14.28 to 14.31) for further details.

12 Timing requirements apply to both the listing document and any supplemental listing document.

	(ii) Valuation methods adopted with detailed basis, bases of key underlying assumptions, and professional qualifications and industry experiences of experts preparing the report.
Other expert reports	(i) Effective date[13] of expert reports must be less than six months before the date of the listing document[12] (see **Chapter 6.2** for the timing requirement of other expert reports for AP). (ii) Valuation methods adopted with detailed basis, bases of key underlying assumptions, and professional qualifications and industry experiences of experts preparing the report. (iii) Material findings should be disclosed in the main body (i.e. "Business" and/or "Risk Factors" sections) of a listing document.
Summary of an applicant's constitution, law of the place of incorporation and information on its dual primary listing/secondary listing (if applicable)	(i) Summary of memorandum of association and articles of association required under MB Rule 19.10(2) (GEM Rule 24.09) (primary listing) and MB Rule 19C.10 (secondary listing). (ii) For PRC issuers and overseas issuers, summary of company law and securities law of the place where an applicant is incorporated as required under C(WUMP)O and MB Chapters 19, 19A, 19C and MB Appendix D1A (GEM Chapters 24, 25 and GEM Appendix D1A). (iii) Summary of the trust deed for stapled securities. (iv) Material differences between the Listing Rules and overseas listing rules (if applicable). (v) For overseas issuers[14]: (a) Details of (i) any restrictions as to (a) the type of shares which may be issued; and (b) the identity of shareholders, under the laws of where an overseas issuer is incorporated; (ii) any limit on the percentage of shares that can be held by local or foreign shareholders; and (iii) any other special criteria or restrictions for the overseas listing. (b) Differences between the domestic laws, rules and regulations to which an overseas issuer is subject and its constitutional and the core shareholder protection standards as set out in MB and GEM Appendix A1 and details of any measures that have been or will be put in place to address the differences.

[13] Effective valuation date if a valuation is included. For a competent person's report of mineral companies, the effective date at which resources and reserves under MB Chapter 18 (GEM Chapter 18A) are estimated or valued (i.e. the date of appraisal and not the date when the competent person's report was signed and/or issued) must be less than six months before the date of the listing document.

[14] An applicant should include an appropriate negative statement where any of the matters referred to in paragraph (v) under "Summary of an applicant's constitution, law of the place of incorporation and information on its dual primary listing/secondary listing (if applicable)" is not applicable. For Bermuda-incorporated and Cayman Islands-incorporated applicants, disclosure is only required if there are changes in the local laws and regulations that would adversely affect the matters stated therein.

	(c) A brief description of the regulatory framework that governs takeovers, mergers and share buy-backs of companies incorporated in the jurisdiction. (d) Differences between the Takeovers Code and the rules of its home jurisdiction. (e) Laws and regulations of the jurisdiction which would render an offeror, offeree company or their related parties being unable to comply with the Code of Conduct for Persons Licensed by or Registered with the SFC. (f) Proposed actions that the overseas issuer will take to resolve conflicts or differences, including any waivers or exemptions available under the local jurisdictions which would allow the parties to fully comply with the Takeovers Code, and the relevant procedures. (g) State that any investor contemplating a takeover of the issuer needs to make sure it complies with all the relevant laws, regulations and codes. (h) Details of any statutory takeovers or mergers regime in the jurisdiction which provides for (i) compulsory acquisition or squeeze out rights; and (ii) appraisal rights for dissenting shareholders. (i) Whether the law of the place where an applicant is incorporated permits treasury shares to be held and if permitted, the voting rights and dividend entitlement attached thereto. (j) Details of stamp duty, withholding tax on distributable entitlements and other tax payable by shareholders (e.g. capital gains tax, inheritance or gift taxes), and whether Hong Kong investors have any tax reporting obligations and related procedures. (k) Summary of the provisions in the laws and regulations in an applicant's home jurisdiction and primary market that are different from those required by Hong Kong laws regarding certain matters set out in MB Rules 19.60(2) (primary listing) and 19C.10B(7)(b) (secondary listing) (GEM Rule 24.27). (l) Where an overseas issuer is listing depositary receipts, a summary of the terms and conditions in the depositary agreement and deed poll.
Statutory and general information	(i) Information required under C(WUMP)O and MB Chapter 17 and MB Appendix D1A (GEM Chapter 23 and GEM Appendix D1A): (a) Incorporation of an applicant, changes in share capital of an applicant and its subsidiaries at least within two years immediately preceding the issue of the listing document, corporate reorganisation, restrictions on share repurchases, pre-

	IPO share scheme/share scheme[15], and information on selling shareholders. (b) Summary of material contracts, disclosure of interests of directors/chief executive/substantial shareholders, and directors' service contracts and remunerations. (c) Experts' qualification and consents, promoters, and preliminary expenses. (ii) Material intellectual property rights[16]. (iii) Binding effect and bilingual listing documents. (iv) Details of resolutions passed by the shareholders. (v) Financial advisers, independence of sponsor[17], and if more than one sponsor, whether each sponsor satisfies the independence criteria under the Listing Rules and if not, reasons therefor under MB Rule 3A.10(2) (GEM Rule 6A.10(2)), and the total amount of sponsors' fees paid and payable.
Documents delivered to the Registrar of Companies and available on display	(i) Lists of documents to be delivered to the Registrar of Companies and be available on display under the C(WUMP)O and MB Rules 19.10(6) and 19A.27(4) (GEM Rules 24.09(6) and 25.20(4)).

[15] An applicant cannot adopt a post-IPO share scheme and issue new shares to the trustee of the share scheme before listing, unless these grants are made for the benefit of specified participants. The Exchange would not grant listing approval for the issue of new shares under the proposed scheme which is not in compliance with MB Chapter 17 (GEM Chapter 23). Please also refer to Guidance Materials for Listed Issuers for issues related to share schemes.

[16] An applicant should evaluate materiality of the intellectual property rights in the context of its business, profitability and prospects as a whole, and the extent to which its business activities, operations, financial position and prospects are dependent on the intellectual property rights.

[17] At least one sponsor of an applicant must be independent under MB Rule 3A.07 (GEM Rule 6A.07).



4

Specific Topics

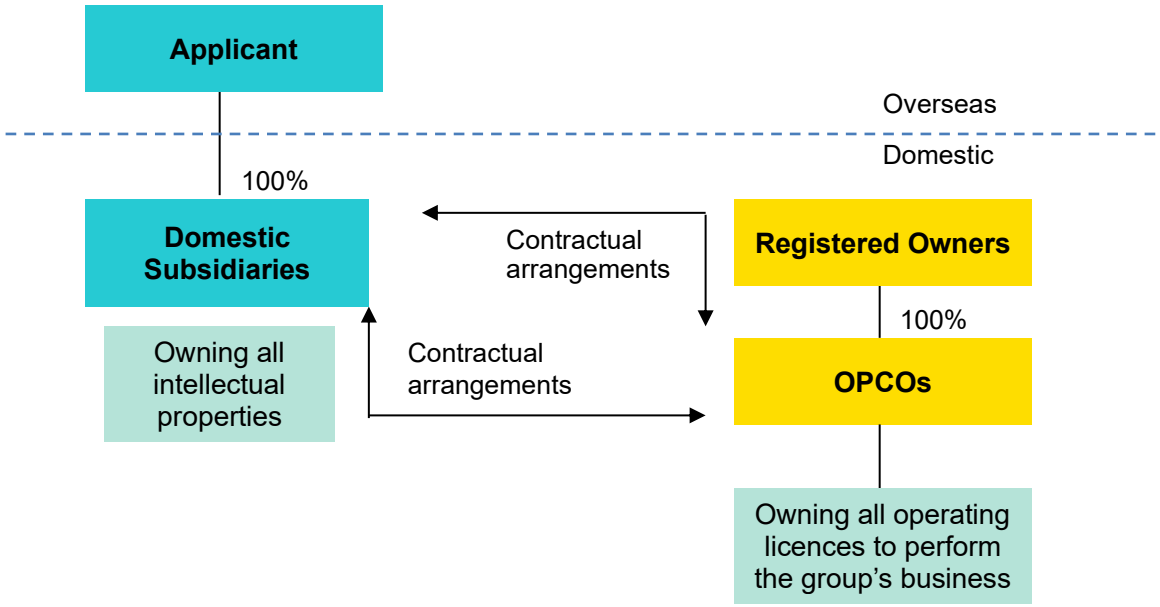
BO
Zybo
ge 188

4.1 CONTRACTUAL ARRANGEMENTS

1. In certain jurisdictions (e.g. Mainland China), the relevant laws and regulations specifically restrict foreign investment in certain businesses (e.g. telecommunications, healthcare and education) (the "**Restricted Businesses**"). In such circumstance, applicants generally use contractual arrangements to hold interests in, and control over, the Restricted Businesses when applying for listing in Hong Kong.

2. This chapter provides guidance on the use of contractual arrangements in conducting an applicant's business.

3. Set out below is the typical structure of the contractual arrangements adopted by an applicant in conducting Restricted Businesses:



4. Under the contractual arrangements, an applicant has:

   (i) the right to enjoy all the economic benefits of the domestic incorporated operating company(ies) ("**OPCOs**") [1] that are owned by the registered owners ("**Registered Owners**") [2] and controlled by the applicant through contractual arrangements, to exercise management control over the operations of the OPCOs, and to prevent leakage of assets and values to shareholders of the OPCOs;

   (ii) the right to all intellectual properties through assignments from the OPCOs;

   (iii) the right to consolidate the financial results of the OPCOs as if they were wholly-owned subsidiaries of the applicant under prevailing accounting principles;

[1] For the purpose of this chapter, where the Restricted Businesses are conducted by subsidiaries of OPCO, "OPCO" should be read as "subsidiaries of OPCO" and the contractual arrangements should ensure that the interests and economic benefits of the applicant in the Restricted Businesses held through such subsidiaries are equally safeguarded.

[2] The Registered Owners are usually the controlling shareholders of the applicant. Where the Registered Owners are not individuals but limited partnerships or corporates, the contractual arrangements should ensure that the interests and economic benefits of the applicant should be equally safeguarded.

(iv) the right to acquire, if and when permitted by the domestic law, the equity interests in and/or assets of the OPCOs for a nominal price or a pre-paid amount; and

(v) a first-priority security interest over the OPCO shares owned by the Registered Owners, as security for the proper performance of the contractual arrangements.

The Exchange's Approach to the Use of Contractual Arrangements

5. In general, where the relevant laws and regulations specifically restrict foreign investment (e.g. the Foreign Investment Law of the People's Republic of China) or disallow foreign investors from using any agreements or contractual arrangements to gain control of or operate the Restricted Businesses, an applicant using contractual arrangements to hold interests in such Restricted Businesses is required to demonstrate that it is able to comply with the relevant laws and regulations and is encouraged to consult with the Exchange in advance.

6. When considering an applicant's suitability for listing under MB Rule 8.04, the Exchange reviews whether an applicant's business operations, including the use of contractual arrangements, comply with all applicable laws and regulations, and are legal and binding. If an applicant can meet this requirement, it will not be treated as unsuitable for listing on the Exchange by reason alone of the contractual arrangements. The sponsor and directors of the applicant are required to demonstrate to the Exchange's satisfaction that the applicant has complied with the above. Subject to such compliance, the Exchange will require disclosures regarding the contractual arrangements and the applicant's compliance with the applicable laws and regulations.

7. The Exchange generally allows the use of contractual arrangements on a case-by-case basis taking into account the reasons for adopting such arrangements and the following principles:

(i) the Listing Rules and the Exchange's policies will be strictly construed;

(ii) the contractual arrangements of an applicant (including an applicant transferring its listing from GEM to MB) should be "narrowly tailored" to achieve the applicant's business purposes and minimise the potential for conflict with relevant laws and regulations. Wherever possible, the applicant would be required to demonstrate genuine efforts to comply with applicable laws and regulations. Evidence to the contrary would indicate a higher risk of the contractual arrangements being deemed in breach of relevant laws and regulations. To be clear:

(a) "narrowly tailored" means that contractual arrangements may only be used to the extent necessary to address any limits on foreign ownership and an applicant should directly hold the maximum permitted interest in the OPCO. For the avoidance of doubt, even if the applicant is able to control OPCO through the direct equity interest held by it in OPCO (e.g. by holding a direct equity interest of more than 50%), the remaining equity interest that is not permitted to be directly held by it may still be held through contractual arrangements; and

(b) generally, where there is no foreign ownership restriction, an applicant must not use contractual arrangements for conducting its business unless there are exceptional circumstances. For instance, an applicant may be allowed to use contractual arrangements if its non-Restricted Businesses are inseparable from the Restricted Businesses, and/or are immaterial in terms of revenue, profit or otherwise during the track record period and after listing. Applicants may wish to consult the Exchange in advance;

(iii) a broad review of all relevant facts and circumstances concerning the applicant would be undertaken by the Exchange, including a review of its legal and compliance history (if any), its management systems and corporate governance practices, its records in protecting shareholder interests and its financial resources to ensure compliance with the applicable laws and regulations. If material uncertainties were identified in the areas of the applicant's business, a higher level of assurance with respect to the arrangements will be required; and

(iv) a legal opinion must be provided. An applicant should seek legal advice and decide what measures to adopt (if any) to fully comply with the relevant laws and regulations. The legal adviser's opinion on the contractual arrangements must include a positive confirmation that the use of the contractual arrangements does not constitute a breach of relevant laws and regulations or that the contractual arrangements will not be deemed invalid or ineffective under those laws and regulations. The legal opinion must be supported by appropriate regulatory assurance, where possible, to demonstrate the legality of the contractual arrangements (the "**Regulatory Assurance Requirement**").

8. The sponsor and legal adviser of the applicant should provide a confirmation and a legal opinion, respectively, in respect of the applicant's compliance with all Listing Rules (save for waivers sought), the applicable laws, rules and regulations and the articles of association of the domestic subsidiaries for the use of contractual arrangements. Additionally, the reporting accountants should confirm that the applicant has the right to consolidate the financial results of the OPCOs as if they were wholly-owned subsidiaries of the applicant under prevailing accounting principles.

Obtaining Regulatory Approval and Fulfilling Other Requirements



9. If the OPCO, as a result of having foreign ownership, is required to obtain regulatory approval and fulfil additional eligibility standards ("**Other Requirements**"), the applicant must (i) fulfil the Other Requirements, and (ii) obtain the regulatory approval to directly hold the maximum permitted interest in the OPCO prior to submitting its listing application ("**Regulatory Approval for Other Requirements**"). However, if the relevant regulatory authority confirms that, notwithstanding having fulfilled the Other Requirements, it will not or cannot give the regulatory approval, either because there are no available procedures or guidance for granting approvals, or for policy reasons, then the applicant can directly hold less than the maximum permitted interest in the OPCO, provided that it demonstrates to the Exchange's satisfaction that it has:

(i) reasonably assessed the requirements under all applicable rules with the support of its legal advisers, and has committed financial and other resources; and

(ii) implemented all the legal adviser's recommendations prior to submitting its listing application. A mere intent, undertaking or plan to implement such recommendations is not sufficient.

Applicants principally operating in Mainland China

10. In February 2023, the China Securities Regulatory Commission ("**CSRC**") released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (the "**CSRC Filing Rules**"), which require an applicant principally operating in Mainland China to file its initial public offering or listing in an overseas market (including Hong Kong) with the CSRC within a prescribed period after the relevant application is submitted overseas.

11. Under the CSRC Filing Rules, an applicant must ensure that its offering complies with all relevant laws and regulations in Mainland China, including those relating to foreign investment restrictions. The CSRC will issue a filing notice to the applicant after it has reviewed the applicant's filing materials.

12. In light of the foregoing, the Regulatory Assurance Requirement under paragraph 7(iv) and the Regulatory Approval for Other Requirements under paragraph 9 above are not required for the requisite legal opinion of an applicant subject to the CSRC Filing Rules. For clarity, if an applicant subject to the CSRC Filing Rules uses contractual arrangements to operate Restricted Businesses under the applicable laws and regulations in other jurisdictions, it shall continue to satisfy the Regulatory Assurance Requirement and the Regulatory Approval for Other Requirements in respect of such Restricted Businesses in other jurisdictions. In addition, applicants not subject to the CSRC Filing Rules must continue to satisfy these requirements.

Guidance on Disclosure

13. In addition to the matters in paragraph 7 above, an applicant using contractual arrangements and/or its sponsor are required to comply with the following (including making disclosure in the listing document). Disclosure on contractual arrangements (other than risk factors) should be consolidated into one standalone section. Appropriate cross-references should be sufficient.

Foreign investment restrictions	(i) A brief description of the relevant laws and regulations governing foreign investment restrictions and prohibitions, and how the contractual arrangements are "narrowly-tailored".
Use of contractual arrangements	(i) Reasons for the use of contractual arrangements in its business operation. If contractual arrangements are used due to reasons other than addressing foreign investment restrictions under paragraph 7(ii) above, the justification thereof should be included (e.g. details of the non-Restricted Businesses, how they are inseparable from the Restricted Businesses, and their materiality in terms of revenue, profit or otherwise during the track record period and after listing). (ii) The basis on which the terms of the contractual arrangements (including related restrictions and undertakings) can provide the applicant with control over all of the OPCOs that are regarded as subsidiaries.
Termination of contractual arrangements	(i) Terminate the contractual arrangements as soon as the law allows the business to be operated without them. The OPCO's registered shareholders must undertake that, subject to the relevant laws and regulations, they must return to the applicant any consideration they receive if the applicant acquires the OPCO's shares when terminating the contractual arrangements. The undertaking must be disclosed in the listing document.
Key aspects of contractual arrangements	(i) Ensure that the contractual arrangements: (a) include a power of attorney by which the OPCO's shareholders grant to the applicant's directors and their successors (including a liquidator replacing the applicant's directors) the power to exercise all rights of the OPCO's shareholders, including the rights to vote in a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. OPCO's shareholders should ensure that the power of attorney does not give rise to any potential conflicts of interest. Where OPCO's

	shareholders are officers or directors of the applicant, the power of attorney should be granted in favour of the applicant and actions in relation to the contractual arrangements must be decided by officers or directors of the applicant who are not shareholders of OPCO; (b) contain dispute resolution clauses that: • provide for arbitration and that arbitrators may award remedies over the shares or land assets of OPCO, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of OPCO; • provide the courts of competent jurisdictions with the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Hong Kong, the applicant's place of incorporation, the OPCO's place of incorporation, and the place where the applicant or the OPCO's principal assets are located should be specified as having jurisdiction for this purpose; and (c) encompass dealing with the OPCO's assets, and not only the right to manage its business and the right to revenue. This is to ensure that the liquidator, acting on the contractual arrangements, can seize the OPCO's assets in a winding up situation for the benefit of the applicant's shareholders or creditors.
Registered shareholders of OPCO	(i) Detailed discussion about the OPCO's registered shareholders and a confirmation that appropriate arrangements have been made to protect the applicant's interests in the event of death, bankruptcy or divorce of the OPCO's registered shareholders to avoid any practical difficulties in enforcing contractual arrangements.
Conflicts of interest	(i) The extent to which the applicant has arrangements in place to address the potential conflicts of interest between the applicant and the OPCO's registered shareholders, particularly in cases where these shareholders are officers and directors of the applicant.
Compliance with relevant laws and regulations	(i) The basis why the directors believe that each of the agreements conferring significant control and economic benefits from the OPCO to the applicant is enforceable under the relevant laws and regulations. (ii) A discussion on whether the applicant has, to date, encountered any interference or encumbrance from any governing bodies in operating its business through the OPCO under the contractual arrangements. (iii) If the OPCO’s operations are in Mainland China, a positive confirmation from the PRC legal advisers that the contractual arrangements would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC contract law.

Potential risks	(i) The economic risks the applicant bears as the primary beneficiary of the OPCO, in what way the applicant shares the losses of the OPCO, the circumstances that could require the applicant to provide financial support to the OPCO, or other events or circumstances that could expose the applicant to losses. (ii) The limitations in exercising the option to acquire ownership in the OPCO (including a separate risk factor explaining these limitations), and clarifying that ownership transfer may still be subject to substantial costs. (iii) Cluster all related risk factors under an appropriate heading, such as “Risks relating to Corporate Structure”. In addition, the listing document should include at least the following contractual arrangements-related risk factors: (a) The government may determine that contractual arrangements do not comply with applicable regulations. (b) The contractual arrangements may not provide control as effective as direct ownership. (c) The domestic shareholders may have potential conflicts of interest with the applicant. (d) Contractual arrangements may be subject to scrutiny by the tax authorities and additional tax may be imposed.
Insurance	(i) Details of any insurance purchased to cover the risks relating to contractual arrangements, or a prominent disclosure that those risks are not covered by any insurance.
Laws restricting foreign investments	(i) Description and analysis of the laws restricting foreign investments, specific measures taken by the applicant to fully comply with those laws (supported by a legal opinion), and any material impact of those laws on the applicant’s operations and financial position. The foregoing should be highlighted in the “Summary” and “Risk Factors” sections.
Others	(i) Include contractual arrangements as material contracts in the “Statutory and General Information” section and make them available on the applicant’s website. (ii) Include the corporate structure table in the "Summary" section for the purpose of illustrating the contractual arrangements and facilitating investors' review and understanding of the arrangements. (iii) Include a separate disclosure of revenue from contractual arrangements if the applicant generates revenue from other subsidiaries apart from the OPCO. (iv) Irrespective of whether the applicant decides to adopt any measures set out in this chapter or any other alternative measures, provide the reasons for taking that approach.

WVR Applicants

14. See **Chapter 2.2** for the Exchange's approach in relation to WVR applicants relying on contractual arrangements.

Post-listing Requirements

15. The above guidance is also applicable to applicants that will acquire or establish a business operated through contractual arrangements after listing.

16. All listed issuers with contractual arrangements must continue to monitor future changes in the relevant laws and regulations and ensure compliance.

4.2 PRE-IPO INVESTMENTS

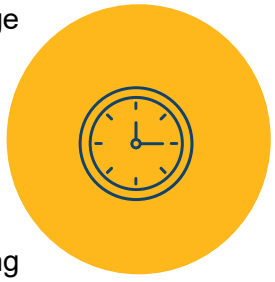
1. The guidance in this chapter (the "**Pre-IPO Investment Guidance**") applies to investments in unlisted shares of an applicant ("**pre-IPO investment**"). Pre-IPO investment in shares refers to the acquisition of shares from an applicant or its shareholder(s) by a new or existing shareholder prior to the applicant's IPO, except as provided in paragraph 14 below.

2. Pre-IPO investors often make their investments on more favourable terms than IPO investors (e.g. by being given special rights that survive listing and do not extend to other shareholders and/or by investing at a lower price than the IPO price). This reflects the significantly different risks borne by a pre-IPO investor. However, where a pre-IPO investment is made close in time to an IPO, there is a concern that the pre-IPO investor is investing on more favourable terms than IPO investors but is not exposed to risks significantly different from those borne by IPO investors. This would contravene the Listing Rule principles as the issue and marketing of securities must be conducted in a fair and orderly manner and all holders of securities must be treated fairly and equally.

Timing of Pre-IPO Investment

Completion of Pre-IPO Investment

3. Unless in very exceptional circumstances, the Exchange will generally delay the first day of trading of the applicant's shares until 120 clear days after the completion of the last pre-IPO investment(s) (or, completion of the divestment as detailed in paragraph 5 below) ("**120 Day Delay**") if:



   (i) Pre-IPO investment is completed within 28 clear days ("**28 Clear Days**") before the date of the first submission of the first listing application form ("**First Filing**") and the pre-IPO investor remains as a shareholder at the date of the First Filing; or

   (ii) The pre-IPO investment is completed on or after the First Filing and before the date of the listing.

4. Pre-IPO investments are considered completed when the funds for the underlying shares are irrevocably settled and received by the applicant (in the case of an issue of shares), or existing shareholders (in the case of a transfer or sale of shares by the existing shareholders). Clear days exclude the day of the pre-IPO investment completion, the day of the submission of the listing application form and the first day of trading of shares.

Divestments

5. Divestments on or after the First Filing will be subject to the 120 Day Delay, regardless of whether the divestment is pursuant to contractual right or not. The divestment must be a bona fide transaction.

6. Divestments by pre-IPO investors before the First Filing that do not disrupt the listing process

or affect the equal treatment of shareholders post listing will not trigger the 120 Day Delay[1] .

Overall

7. Where an applicant is subject to the 120 Day Delay due to more than one triggering event as stated above, the Exchange will delay the first day of trading of the applicant's shares until 120 clear days after the last triggering event.

Lock-up and Public Float



8. Pre-IPO investors are usually requested by the applicant to lock-up their pre-IPO shares for a period of six months or more.

9. Shares held by pre-IPO investors are counted as part of the public float so long as MB Rule 8.24 (note 3 to GEM Rule 11.23) is fulfilled.

Guidance on Disclosure

10. The listing document must include the following information:

Details of the pre-IPO investments	In tabular format, details of the pre-IPO investments, including: (i) Name of each pre-IPO investor; (ii) Date of investment; (iii) Amount of consideration paid; (iv) Payment date of the consideration; (v) Cost per share paid by each pre-IPO investor and the respective discount to the IPO price; (vi) Use of proceeds from the pre-IPO investments and whether they have been fully utilised; (vii) Strategic benefits pre-IPO investors will bring to the applicant; and (viii) Shareholding held by each pre-IPO investor upon listing.
Background of pre-IPO investors	The beneficial owner(s) and background of each of the pre-IPO investors and their relationship with the applicant and/or any connected persons of the applicant.
Basis for consideration	Basis of determining the consideration paid by each pre-IPO investor.
Special rights	Details of any material special rights granted to the pre-IPO investors that will survive listing and how they comply with MB Rule 2.03(4) (GEM Rule 2.06(4)) and the principles set out in "Special Rights of Pre-IPO Investors" below or a statement that no special rights shall survive listing.
Lock-up and public float	Whether the shares held by each pre-IPO investor will be subject to any lock-up after listing (as part of the investment terms) and, with basis, whether the shares held by the pre-IPO investors are considered as part of the public float for the purposes of MB Rule 8.08 (GEM Rule 11.23).

[1] However, if such divestment involves a transfer of interest to an existing shareholder or a new investor, the requirements under paragraph 3 and 4 above apply.

Share-based payments	If the pre-IPO investment is in the form of share-based payments, the accounting treatment of the pre-IPO investments, the basis of the reporting accountants' view on the accounting treatment; and a risk factor, if applicable, on the future impact on the applicant's profit and loss.
Sponsor's confirmation	The sponsor's confirmation, with basis, that the pre-IPO investments are in compliance with the Pre-IPO Investment Guidance.

Special Rights of Pre-IPO Investors

11. Special rights that do not extend to all other shareholders or do not comply with the Pre-IPO Investment Guidance must be amended or terminated prior to the listing. Such rights may exist and be exercised up to listing.

12. Except as otherwise provided herein, rights granted by one shareholder to another or agreements among shareholders (including controlling shareholders) are private arrangements and generally not subject to the Pre-IPO Investment Guidance.

13. Below are examples of common special rights and the Exchange's guidance. Treatment of special rights will depend on the facts and circumstances of each application[2]:

	Must terminate upon listing	May survive listing
Price adjustments	(i) Terms which adjust the purchase price based on a discount to the IPO price or market capitalisation must terminate upon listing regardless of whether they are settled by the applicant or a shareholder.	(i) Terms that provide a fixed rate of return to the pre-IPO investor (which effectively reduces the price per share) and settled by a shareholder may survive after listing, provided that they are not based on a discount to the IPO price or market capitalisation at IPO.
Divestment Rights[3]	(i) Unless provided in (ii) below, Divestment Rights must terminate before the First Filing. If an applicant fails to comply with the above requirement in respect of the termination of its Divestment Rights, the applicant shall be subject to the 120 Day Delay from the date of exercise or termination of any Divestment Right existing on the date of First Filing[4]. (ii) Divestment Rights may exist on or after the First Filing if it is only	-

2 In this table, an 'applicant' shall refer to the applicant, its subsidiaries or anyone acting on its behalf (for clarity, the controlling shareholder is not presumed to be acting on behalf of the applicant).

3 For the purpose of this chapter, examples of divestment rights ("**Divestment Rights**") are put options, redemption or repurchase rights or rights granted by the applicant or the controlling shareholder to the pre-IPO investor or right (e.g. call options) permitting the applicant or the controlling shareholder to repurchase shares of the pre-IPO investor.

4 Unwinding a pre-IPO investment is not a remedy.

	Must terminate upon listing	May survive listing
	exercisable when the listing does not take place[5] and will terminate upon listing.	
Director nomination/ appointment rights	(i) Any right granted by the applicant to nominate or appoint a director must terminate upon listing as such a right is not generally available to other shareholders. (ii) Any director nominated or appointed before listing by a pre-IPO investor does not need to resign at listing unless required under the applicant's articles of association.	(i) Any agreement among the shareholders to nominate and/or vote for certain director candidates are not subject to the Pre-IPO Investment Guidance. (ii) Any rights available to all shareholders subject to certain qualifications stipulated in the applicant's articles of association (e.g. holding minimum interest) as such right is available to all shareholders that fulfil such criteria.
Other nomination rights	-	(i) Rights to nominate senior management and committee representatives (other than directors and board committee members) granted by the applicant or the controlling shareholder may survive listing provided that all appointments are subject to the board's decision. (ii) The board must not be contractually obligated to approve pre-IPO investor's nominations without further review as the directors are subject to fiduciary duties to act in the best interest of the applicant and its shareholders as a whole.
Veto rights	(i) Any contractual right to veto major corporate actions (e.g. winding-up, change of business and merger) must terminate upon listing.	-

[5] Non-exhaustive examples of when a listing does not take place include any occurrence of events which would render the applicant unable to comply with the listing requirements or withdrawal/rejection/return/lapse of a listing application.

	Must terminate upon listing	May survive listing
Anti-dilution rights (i.e. preferential rights to purchase extra shares to be issued so as to maintain shareholding percentages)	(i) Under MB Rule 10.04 (GEM Rules 10.12(1AA)(b) and 13.02(1)) and paragraph 1C(2) of MB Appendix F1, no shares can be offered to existing shareholders of the applicant on a preferential basis and no preferential treatment can be given to them in the allocation of shares. (ii) Anti-dilution rights must terminate upon listing and may not survive listing to be in line with MB Rule 13.36 (GEM Rule 17.39). Exercise of anti-dilution rights before and in connection with the IPO is permissible if: (a) The allocation is necessary to give effect to pre-existing contractual rights; (b) There is full disclosure of the anti-dilution rights and the number of shares to be subscribed in the listing document and the allotment results announcement; and (c) The additional shares will be subscribed at the IPO price.	
Financial compensation	(i) Any financial compensation [6] settled by the applicant or linked to the market price or market capitalisation of the shares must terminate upon listing.	(i) Any financial compensation settled by a shareholder and not linked to the market price or market capitalisation of the shares may survive listing.
Prior consent for certain corporate actions/ changes in articles	(i) Any right that requires prior consent of the pre-IPO investor for corporate actions (e.g. declaration of dividend by an applicant and its subsidiaries, sale, lease or transfer of a substantial part of the business or assets, change in director and amendments to the articles) must terminate upon listing.	-
Exclusivity rights and no more favourable terms	(i) Any restriction on the applicant from issuing or offering shares, options, warrants and rights to any direct competitor of the pre-IPO investor or to other investors on terms more favourable than the terms enjoyed by the pre-IPO investor must terminate upon listing, as these rights could potentially prevent the board from considering alternative proposals that would be in the best interest	(i) Exclusivity rights can survive listing if the terms of the pre-IPO investment are modified to include an explicit "fiduciary out" clause so that directors are allowed to ignore the terms if complying with them would constitute a breach of their fiduciary duties[7].

[6] Includes profit guarantees or compensation for failure to achieve a qualified IPO (i.e. an IPO which satisfies certain conditions agreed with a pre-IPO investor).

[7] In such case, the directors would not be prevented from exercising their judgment on whether to undertake certain corporate actions in the best interest of the applicant and its shareholders as a whole.

	Must terminate upon listing	May survive listing
	of the applicant and its shareholders.	
Information rights	(i) Information rights must terminate upon listing if they constitute inside information.	(i) Information rights can only survive listing if the pre-IPO investor is only entitled to receive published information or information made available to the public at the same time, to avoid unequal information dissemination.
Right of first refusal and tag-along rights	-	(i) Any right of first refusal granted by the controlling shareholder such that controlling shareholder must first offer to sell his/her shares to the pre-IPO investor at the same price and on the same terms as offered to another investor may survive listing. (ii) Any right granted by the controlling shareholder to include the shares of a pre-IPO investor for sale together with the controlling shareholder's shares may survive listing.

Other Matters

14. The Pre-IPO Investment Guidance does not apply to (i) shares of an applicant acquired in an exchange of shares of a predecessor in interest company[8] or an operating subsidiary or as part of a corporate restructuring in connection with the listing; and (ii) shares awarded to directors or employees of an applicant as part of a defined share award scheme.

15. There may be circumstances where pre-IPO investments on terms more favourable than those offered to investors at the IPO may be justifiable (e.g. where the applicant is in severe financial distress). Each case will be considered based on its own facts and circumstances.

Pre-IPO Investments in Convertible Instruments

16. The guidance in "Special Rights of Pre-IPO Investors" above also applies to all special rights attached to convertible instruments. Any reference to shares therein shall refer to convertible instruments as applicable.

17. In addition to the disclosures required under paragraph 10 above, the applicant should also disclose the following in the "Financial Information" and "Risk Factors" sections of the listing document:

[8] Refers to a company operating the applicant's business prior to the formation of the applicant.

Redemption	Whether the applicant is required to redeem the convertible or exchangeable bonds, notes or loans and convertible preference shares ("**CBs**") before the maturity date.
Analysis of cash flow and cash position	A qualitative analysis of the cash flow and cash position in the event of CBs redemption.
Terms and impact of early redemption	The various terms and impact of early redemption, including the monetary amount that the applicant is required to pay to the CB holders on the assumption of redemption upon maturity or early redemption, so as to enable the CB holders to receive the required percentage of internal rate of return.
Number of shares and shareholding	The maximum number of shares that would be converted and the corresponding change in shareholding.
Cashflow	The expected source of cash inflows upon listing, in particular the existing cash position of the applicant, the additional positive operating cashflow to be generated and estimated net proceeds from the IPO.

18. CBs issued to pre-IPO investors may be structured in such a way that they are not shares in form, but the investors would enjoy a risk-return profile similar to or even better than that of a shareholder.

19. Below are the Exchange's practices in dealing with convertible instruments issued to pre-IPO investors:

Conversion price linked to IPO price or market capitalisation	(i) The conversion price for the CBs should be at a fixed dollar amount or at the IPO price. A guaranteed discount to IPO price or market capitalisation of the shares may give rise to concerns that the pre-IPO investor does not bear the same investment risk as IPO investors.
Conversion price reset	(i) Any conversion price reset mechanism of the CBs should not survive listing as they are considered to be contrary to the principles of the Listing Rules. (ii) For example, where the conversion price reset mechanism is based on the lower of a fixed price and a floating market price. Such a price reset mechanism allows conversion at a discount to the fixed price. As the share price declines, the market price based conversion formulae would lead to more shares to be issued, hence greater dilution and greater potential for share price reduction which can work in a spiral.
Mandatory or partial conversions	(i) Partial conversion of CBs is only allowed if all special rights (other than the early redemption rights described below) are terminated after listing. This prevents the situation where a pre-IPO investor enjoys the special rights he/she held as a CB holder by converting a significant portion of his/her CBs into shares and still be entitled to special rights by holding a small portion of the CBs.

Early redemption rights	(i) Certain CBs provide bondholders with the option to redeem early the outstanding CBs at a price which enables them to receive a fixed IRR[9] on the principal amount of the CBs being redeemed. Upon maturity, all outstanding CBs shall become immediately payable at a price which would enable CB holders to receive the same fixed IRR. The Exchange considers that the IRR on the principal amount of the CBs to be redeemed is compensation for the investment and risk undertaken by the bondholders, and therefore such early redemption rights may survive listing.
Negative pledges	(i) Negative pledges restrict an applicant from certain corporate actions, such as creating an encumbrance on its assets and revenues, or paying dividends without prior consent of the pre-IPO investor. (ii) Negative pledges should not survive listing unless the sponsor confirms that the negative pledges are not egregious, and do not contravene the fairness principle in the Listing Rules.

20. **Annex A.15** sets out listing decisions on various scenarios of pre-IPO investments and the Exchange's considerations.

[9] IRR is the interest rate needed in the discounting of cash flows to their present value so the investment's net present value is equal to zero. For example, if the cost of investment of a financial instrument is HK$100 and it is expected to pay its holder HK$110 in one year's time, the investment's internal rate of return is 10%.

4.3 CORPORATE GOVERNANCE AND ENVIRONMENTAL, SOCIAL & GOVERNANCE

1. Sound CG and ESG practices are foundational to creating a sustainable and successful business.

2. Corporate governance defines the way a company is directed and controlled. Robust CG systems and processes enable prudent management of a company's operations and affairs in order to achieve its strategic goals, while strengthening corporate accountability.

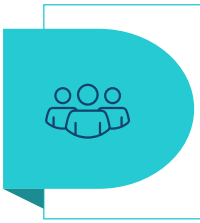
3. Upon listing, applicants will be subject to and required to make disclosures in compliance with the CG Code and the ESG Rules as set out in MB Appendix C1 and MB Appendix C2 (or GEM Appendix C1 and GEM Appendix C2).

4. In preparing the applicant's Listing Rules compliance upon listing, the Exchange expects applicants to consider CG and ESG issues and put in place appropriate mechanisms at an early stage.

5. Where an applicant's oversight of CG- and ESG-related matters is managed on an integrated basis, it should avoid duplication and make integrated disclosures in the listing document.

Corporate Governance

6. Corporate governance covers many topics, all of which play an important role in ensuring that the company is effectively managed with an appropriate system of risk management and internal controls supporting regulatory compliance, good business practices and sustainability. The topics include, among other things:



Board composition (including diversity and directors' skills, expertise and experience)

- See "Governance" section under this Chapter.
- See **Chapter 3.10**
- HKEX's Corporate Governance Guide for Boards and Directors.



Corporate culture (and how it aligns with the applicant's purpose, values and strategy)

- See "Governance" section under this Chapter.
- See **Chapter 3.10**
- HKEX's Corporate Governance Guide for Boards and Directors.



Risk management and internal control

- See "Risk Management" section under this Chapter.
- See **Chapter 3.7**
- HKEX's Corporate Governance Guide for Boards and Directors.

The Exchange's "Corporate Governance in Practice" page contains a range of training and guidance materials on CG matters.

ESG

7. Companies with a strong ESG focus could deliver greater shareholder value at a lower risk over the long term.

8. The rest of this chapter focuses on four ESG areas: Governance, Strategy, Risk Management and Metrics and Targets[1]. The guidance below also applies to climate-related issues.

Governance



9. Good governance is pivotal to the long-term success and sustainability of a business, and relies on effective board oversight in establishing a robust risk management system and nurturing a healthy corporate culture.

Principles

10. Directors are responsible for overseeing CG and ESG matters and ensuring compliance upon listing.

11. The board should:

    (i) Have a balance of skills, experience and diversity of perspectives aligned with the applicant's businesses, strategy and objectives. In particular, as ESG issues and reporting standards are rapidly evolving, the board should have appropriate skills and competencies to appreciate the effect of ESG risks and opportunities in order to oversee the strategies designed to respond to ESG-related risks and opportunities;

    (ii) Exercise oversight over delegated responsibilities to the management or committees according to procedures;

    (iii) Have a diversified composition. Board diversity will raise board quality, enable better decision-making and add value to the long term success of the applicant's business; and

    (iv) Ensure that each director can give sufficient time and attention to the applicant's affairs.

12. An applicant should have in place a policy on board diversity, and systems and mechanisms to regularly review such policy. Applicants with a single gender board must appoint at least one director of a different gender before listing.

13. As directors have collective responsibility for CG and ESG matters, applicants are encouraged to appoint INEDs at least two months prior to listing so that they can understand the applicant's affairs, and formulate necessary mechanisms and policies on CG and ESG matters.

14. Newly appointed directors should receive a comprehensive and tailored induction upon appointment.

15. All directors should participate in continuous professional development to refresh their knowledge and skills and to ensure their understanding of the applicant's operations and business and their responsibilities under the law, the Listing Rules and other regulatory requirements.

[1] This structure is in line with international frameworks such as the recommendations of the Task Force on Climate-related Financial Disclosures established by the Financial Stability Board and the IFRS Sustainability Disclosure Standards.

Guidance on Disclosure

16. The applicant should consider disclosing the following:

Directors and Senior Management section	(i) The Board's role and accountability in the formation of governance policies and measures to ensure a compliance culture in the business operation. (ii) Policy on board diversity achieved through gender, age, cultural and educational background or professional experience. (iii) Policies on directors' compensation, other benefits and welfare, including whether and how ESG-related performance metrics or considerations are factored into remuneration policy (e.g. how climate change issues are included in balanced scorecards for executive remuneration). (iv) Identity of dedicated committee or taskforce that supervises compliance matters and conducts internal compliance checks. (v) Qualifications and experience of board members and/or committees responsible for the oversight of risk management policies (if any), ESG-related or other delegated matters, how they report to the Board and the frequency of reporting. (vi) Board members' ability to devote sufficient time and attention to the applicant's affairs against their commitments to other companies or organisations (if any).
Business section	(i) How the board considers ESG-related risks and opportunities when overseeing the applicant's strategy or decision-making on major transactions. (ii) Measures put in place to enable the applicant's compliance culture, including corporate governance measures and processes to (a) ensure such culture is embedded into everyday workflow, and (b) set the expectations for individual behaviour across the applicant, and their effectiveness. They may include: (a) The board's attitude or commitment towards lawful, ethical and responsible operation of the businesses; (b) Internal regulatory compliance policies and manuals governing individual behaviour within the applicant; and (c) Regular compliance training for employees.

Strategy



17. The Exchange encourages applicants to evaluate and disclose in their listing documents the effect of material ESG-related risks on the applicants and how the risks will be addressed.

18. The Exchange also encourages applicants to disclose any ESG-related opportunities they have identified, such as resource efficiency, cost savings and development of new products and services, and the effects of such ESG-related opportunities on the applicants.

Principles

19. The board should:

(i) Identify and disclose material ESG-related risks (and opportunities (if any)) reasonably likely to have a material effect on the applicant's business model, value chain[2], cash flows, its access to finance and its cost of capital over the short, medium and long term; and

(ii) Assess and disclose qualitative and/or quantitative information on the effects of the ESG-related risks (and opportunities (if any)) on the applicant's business model, value chain, financial position, financial performance and cash flows.

Guidance on Disclosure

20. The applicant should consider disclosing the following:

Risk Factors section	(i) Risks associated with any potential changes in ESG-related social trends and governmental policies on the applicant's business model and value chain. (ii) The applicant's current and anticipated risk exposure (e.g. the extent of assets or business activities vulnerable to the ESG-related risk identified).
Industry Overview & Applicable Laws and Regulations sections	(i) ESG-related industry standards, governmental policies, laws and regulations that have a significant effect on the applicant. For example: (a) Local and/or international standards, laws and regulations on handling hazardous waste; and (b) National plans to achieve carbon neutrality (e.g. PRC's plan to become carbon-neutral by 2060).
Business section	(i) Plans to address the ESG-related risks identified (e.g. current or anticipated changes to the applicant's business model and resource allocation, any adaptation and mitigation efforts undertaken or to be undertaken, any climate-related transition plan it has and any plans to resource such activities or plans), any metrics or targets to track the progress of such plans and the timeframe to achieve those targets.

[2] Value chain refers to the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Financial Information section	(i) Qualitative and/or quantitative information regarding the current and anticipated effects of ESG-related risks on the applicant's financial position, financial performance and cash flows (e.g. impairment test on goodwill, intangibles, property, plant and equipment, tests on inventories, etc.). In providing quantitative information, an applicant may disclose a single amount or a range.

Risk Management



21. Proper risk management improves applicants' resilience towards adverse situations and uncertainties. It is essential for applicants to put in place policies and procedures to identify, assess, prioritise and monitor risks in order to minimise their effects on the applicants.

Principles

22. The board is responsible for overseeing the applicant's risk management and internal controls. Applicants should have in place a comprehensive and effective framework of risk management and internal controls to address the risks from the applicant's business operations (including ESG-related risks) and other compliance issues.

23. Applicants are expected to be able to identify, assess and prioritise risks (including ESG-related risks) reasonably expected to affect their cash flows, access to finance or cost of capital over the short, medium or long term, thereby enabling investors' evaluation of the applicant's performance.

24. Applicants should consider their risk management policies and internal control procedures, and explain how these policies and procedures address the risks (including ESG-related risks) identified.

Guidance on Disclosure

25. The applicant should consider disclosing the following:

Business section	(i) Details of how the overall risk management and internal control framework has been designed to address major risks or compliance requirements identified. (ii) Risk management and internal control policies, procedures and measures, and on-going measures to monitor the effectiveness of these policies, procedures and measures. (iii) The process and selection criteria the applicant uses to identify, assess and prioritise material risks (including ESG-related risks), as well as how the board reaches its conclusion on the materiality and priority of such risks, preferably supported by quantitative data (where applicable). (iv) Details of material non-compliances with ESG laws and regulations, including reasons for the non-compliance incidents, whether the applicant has been, or will be penalised for the non-compliance, process used to resolve material internal control defects and enhanced internal controls, etc. (see also **Chapter 1.2D**).



26. Metrics, indicators and targets allow applicants to measure, monitor and manage their ESG-related risks (and opportunities (if any)). Applicants may disclose the ESG-related metrics on a standalone basis, or as part of its governance, strategy or risks management disclosures.

Principles

27. ESG-related metrics and targets should facilitate stakeholders' assessment of applicants':

    (i) General exposure to ESG-related risks;

    (ii) Progress in managing or adapting to those ESG-related risks;

    (iii) Potential risk-adjusted returns;

    (iv) Ability to meet financial obligations; and

    (v) Commitment towards transitioning to a lower-carbon economy.

28. ESG-related metrics and targets should provide visibility on:

    (i) The applicants' goals to address ESG-related issues specific to it and the industry in which it operates;

    (ii) The effectiveness of its plans to achieve the intended results;

    (iii) The applicant's ESG performance compared to its industry peers; and

    (iv) Extent of compliance with local statutory targets (where applicable).

Guidance on Disclosure

29. The applicant should consider disclosing the following non-exhaustive examples of ESG-related metrics:

Environmental	(i) Scope 1, scope 2 and scope 3 greenhouse gas emissions. (ii) Effect of the applicant's activities on the environment and natural resources, and actions taken to manage them (e.g. water usage and efficiency, waste and recycling). (iii) Amount and percentage of assets or business activities vulnerable to climate-related transition risks[3]/ climate-related physical risks[4]. (iv) Amount and percentage of assets or business activities aligned with climate-related opportunities.

[3] Climate-related transition risks are risks that arise from efforts to transition to a lower-carbon economy, which may entail extensive policy, legal, technological, market and reputational risks.

[4] Climate-related physical risks are risks resulting from climate change that can be event-driven (acute physical risk) such as storms, floods or heatwaves, or from longer-term shifts in climatic patterns (chronic physical risk) such as changes in precipitation and temperature.

	(v) Amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities. (vi) Comparative analysis of the ESG-related metrics of its peers (where applicable). (vii) Statutory targets (e.g. greenhouse gas emission reduction targets or national vehicle emission standards prescribed by local legislation in jurisdictions in which an applicant operates) so that prospective investors may assess the applicant's climate plans with reference to such statutory targets in mind.
Social	(i) Statistics regarding composition of workforce (e.g. turnover rate and gender ratio). (ii) Details of fair labour practices and employee engagement, and partnerships with social impact organisations. (iii) Preventive measures (e.g. anti-corruption training) and whistle-blowing procedures, and how they are implemented and monitored. (iv) Occupational safety measures, system of recording and handling accidents and implementation of the policies and the applicant's health and work safety compliance record. (v) Number of material accidents relating to applicant's operations, and whether they resulted in any claims for personal or property damages or compensation paid to employees (and the amount of such claims or compensation, where relevant). (vi) Details of how the applicant assesses the ESG practices of its suppliers. For example, to ensure that its suppliers are using environmentally-friendly materials and processes and have fair labour policies and ethical business practices.



Note

The Exchange's "ESG Academy" page contains a range of training and guidance materials on ESG matters, including HKEX's Guidance on Climate Disclosures.

4.4 SANCTIONS RISKS

1. This chapter provides guidance on applicants whose activities expose the Relevant Persons (as defined below) to any risk as a result of sanctions under any law or regulation of the Relevant Jurisdiction (as defined below) and how such risk affects their suitability for listing.

2. Certain overseas jurisdictions may from time to time impose trade or economic sanctions on specific countries, governments, entities or persons by restricting nationals of those jurisdictions from making assets or services available, directly or indirectly, to the sanctioned parties, 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.

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

Definitions

4. The following defined terms are relevant for this chapter:

Primary Sanctioned Activity	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 an 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	Any jurisdiction that is relevant to the 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	An 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	Primary Sanctioned Activity and Secondary Sanctionable Activity.
Sanctioned Country	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	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	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	Certain activity by an applicant that may result in the imposition of sanctions against the Relevant Persons by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.

Sanctions Risks

5. The table below sets out our guidance in relation to certain sanctions scenarios:

Scenario	Guidance
Applicant has engaged in Primary Sanctioned Activity	(i) The applicant must: (a) Obtain an analysis from its legal adviser, with basis, on whether each Primary Sanctioned Activity conducted by the applicant (a) violates any applicable law or regulation in the Relevant Jurisdiction; and/or (b) results in any material sanctions risks[1] to the Relevant Persons; (b) Cease all Primary Sanctioned Activities prior to listing if its legal adviser has confirmed that such activities violate applicable law or regulation; and (c) Assess the impact of any cessation of Primary Sanctioned Activity on its financial position and business operations.
Applicant has engaged in Secondary Sanctionable Activity	(i) The applicant must obtain an analysis from its legal adviser, with basis, on whether each Secondary Sanctionable Activity conducted by the 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).
Applicant is a Sanctioned Target, is located, incorporated, organised or resident in a Sanctioned Country or is a Sanctions	(i) Depending on the facts and circumstances, the Exchange may impose other restrictions (e.g. the applicant might be required to ensure that its shares are not offered to nationals of the Relevant Jurisdictions) or determine that

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

Scenario	Guidance
Trader	such an applicant is not suitable for listing due to reputational risk.

Measures to Be Adopted by the Applicant Subject to Material Sanctions Risks

6. An applicant subject to material sanctions risks 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 risks involved and the materiality of the Sanctioned Activity to the applicant's business, these measures may include an undertaking from the applicant and/or its shareholders to the Exchange:

   (i) Not to directly or indirectly apply the IPO proceeds and any other funds raised through the Exchange to (a) finance or facilitate any Sanctioned Activity; or (b) pay any damages for terminating or transferring the relevant contracts that constitute Sanctioned Activity;

   (ii) 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

   (iii) To disclose in its annual, interim and quarterly reports (if any) (a) details of any new and/or existing Sanctioned Activity; (b) its efforts in monitoring its business exposure to sanctions risks; and (c) the current status of, and the anticipated plans for, any new and/or existing Sanctioned Activity.

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

Guidance on Disclosure

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

Sanctioned Activities	(i) Details including, but not limited to, (a) the nature and size of the applicant's projects/businesses involved in the Sanctioned Activities; (b) whether the applicant and/or its counterparties were, or have reasons to believe they will be deemed to be, Sanctioned Targets; and (c) background of the counterparties, the revenue recognised from Sanctioned Activities during the track record period and the current status of such activities.
Legal adviser's analysis	(i) The legal adviser's analysis as required under paragraph 5 above.
Material contingent liabilities	(i) A description of any known material contingent liabilities in relation to the Sanctioned Activities in accordance with the applicable accounting and legal standards.

Violation of applicable laws and/or regulations	(i) If the applicant has engaged in Primary Sanctioned Activities that violate any applicable laws or regulations: (a) When such activities ceased; (b) Details of the financial and operational impact; (c) Any disclosure made to the relevant governments and responses to, and the status of, any such disclosure; and (d) The legal consequences (including maximum penalties, if any) on the Relevant Persons as a result of such cessation.
New Sanctioned Activity after listing	(i) If the applicant intends to undertake any new Sanctioned Activity after listing, details of such intention and the parameters or criteria that the applicant will consider when determining whether to undertake such activity.
Internal control measures	(i) The internal control measures and the views of its sponsor and directors on the adequacy and effectiveness of the internal control measures to protect the interests of the Relevant Persons; (ii) The undertakings under paragraph 6; and (iii) A risk factor on the possible delisting of the applicant's securities if any undertaking to the Exchange as described in paragraph 6 is breached.

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

Suitability for Listing

10. The following circumstances may render an applicant not suitable for listing:

(i) Any sanctions risks to or sanctions imposed on the applicant that materially undermine its ability to continue its operations;

(ii) An applicant states that the funds are raised to finance Sanctioned Activities; or

(iii) Its listing would pose a significant risk to the Relevant Persons or reputational risk to the Exchange.

4.5 DISTRIBUTORSHIP

1. This chapter applies to applicants with businesses involving distributorships. The sponsor should assess the substance of the applicant's business relationship with its counterparties to identify the applicant's distributors.

2. The correlation between an applicant's revenue with the market trend and actual end-customer demand is a critical factor to assess an applicant's quality of revenue when it sells its products to end-customers through multiple levels of third-party intermediaries, commonly known as distributors and sub-distributors.

Definitions

In this chapter,

(i) **Distributors** refer to an applicant's direct counterparties who contractually resell, or are reasonably expected to resell the applicant's products, which include franchisees and consignees. Retail buyers who are not expected to further resell the applicant's products would not normally be considered distributors even if they occasionally resell the products to other parties.

(ii) **Sub-distributors** refer to other intermediaries who purchase an applicant's product from its distributors to resell.

Guidance on Disclosure

3. An applicant may have different arrangements and degrees of control over its distributors, and thus, the consequential risks could be different. The following general disclosure should be included in the listing document:

Consideration	Disclosure
Extent of non-recurring sales	(i) The extent to which historical sales are non-recurring, the reasons therefor and the associated risk.
Benefits and reasons for distributorship model	(i) Benefits of and reasons for using the particular distributorship business model and whether it is an industry norm.
Distribution channels and revenue contribution	(i) The applicant's different distribution channels and their respective revenue contribution during the track record period.
Rationale and financial performance of	(i) If the applicant is adopting a cannibalisation strategy, a discussion on the rationale for this strategy and its impact on the applicant's historical and expected financial performance.

Consideration	Disclosure
cannibalisation strategy (if applicable)	
Independence	(i) Whether the distributor is an independent third party or has any other relationship with the applicant (e.g. the distributor is controlled by the applicant's former or current employees, uses the applicant's brand/name or has received any material advance or financial assistance from the applicant).
Nature of relationship	(i) Whether the applicant's role in relation to the distributors is as a seller/buyer or principal/agent, and the relationship among the distributors, if any.
Revenue recognition & return policies	(i) A discussion of the applicant's revenue recognition and goods return/refund policies.
Terms of agreements	(i) The principal terms of the distribution (including sub-distribution)/consignment/franchise agreements, including (A) whether there are any terms (a) requiring a minimum purchase amount or a minimum sales target, (b) restricting the appointment of sub-distributors (where applicable); (c) mandating selling prices to sub-distributors or end-customers; and (d) relating to goods return policy and (B) whether such goods return policy is in line with industry practice. (ii) In cases where no sub-distribution agreements are signed with sub-distributors, disclose the number of sub-distributors during the track record period and the applicant's control over the sub-distributors.
Turnover rates and movement of distributors	(i) The turnover rates and movement in the number of distributors during the track record period and reasons for any major changes.

Guidance on Specific Risks and Disclosure

4. Sponsor should assess the risks with respect to distributors and sub-distributors and conduct appropriate due diligence. An applicant may not be able to control its distributors or its sub-distributors in the absence of a written distribution agreement. For example, where the applicant's business involves significant use of key opinion leaders or other distributors to promote and distribute the applicant's products or services, the listing document should include a discussion on the applicant's limited level of direct and indirect control over its distributors or sub-distributors and a relevant risk factor.

5. The following are some examples of specific risks and features of a distributorship business model which would require specific due diligence and disclosure in the listing document:

Specific Risks	Details of the Risk and Potential Issues	Non-exhaustive Due Diligence and Specific Disclosure
Channel stuffing	(i) The applicant's products could have stayed in the distribution network without reaching to end-customers. Where there is no mandatory sales target but unusually long goods return period, sales previously recognised may be subsequently reversed. (ii) If applicants have mandatory sales targets for distributors, the risks that the products are not reaching end-customers but remain in the applicant's distribution network would be higher.	(a) The sponsor is expected to conduct due diligence to determine whether sales corresponded to actual end-customer demand. (b) Disclose the applicant's overall inventory control and management policy, including how the applicant monitors the inventory level of its distributors and the amount of unsold inventory held by distributors as at the end of each year during the track record period and LPD. (c) The sponsor and the reporting accountants must examine the applicant's goods return policy and the amount of returned goods during the track record period.
Recoverability of accounts receivables	(i) Long outstanding accounts receivables, increased aged accounts receivables and debtors' turnover days are potential red flags as they indicate potential liquidity issue, sustainability of the applicant's business and sales genuineness.	(a) Directors and the sponsor are required to provide their views, with basis, on whether the applicant's credit management policy is appropriate. (b) Directors and the reporting accountants must also substantiate their views as to adequacy of the provisions for accounts receivables. (c) Disclosures should include: 1. a discussion on the recoverability of accounts receivables and the subsequent settlement of the balance as at the LPD; and 2. the impact of the increase in accounts receivables and debtors' turnover days on the liquidity and cash flow of the applicant.

4.6 FORFEITED INCOME FROM PREPAYMENTS

1. This chapter explains (i) the characteristics of businesses involving forfeited income from prepaid services and products (i.e. customers' unexercised rights or breakage as referred to in Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers"); (ii) the relevant disclosure requirements for applicants operating businesses involving forfeited income; and (iii) the potential associated issues.

Characteristics of a Business Model that Relies on Breakage

2. Industries such as personal care services (e.g. slimming and beauty services) tend to have a business model that relies on breakage. The business model of these applicants usually exhibits the following features:

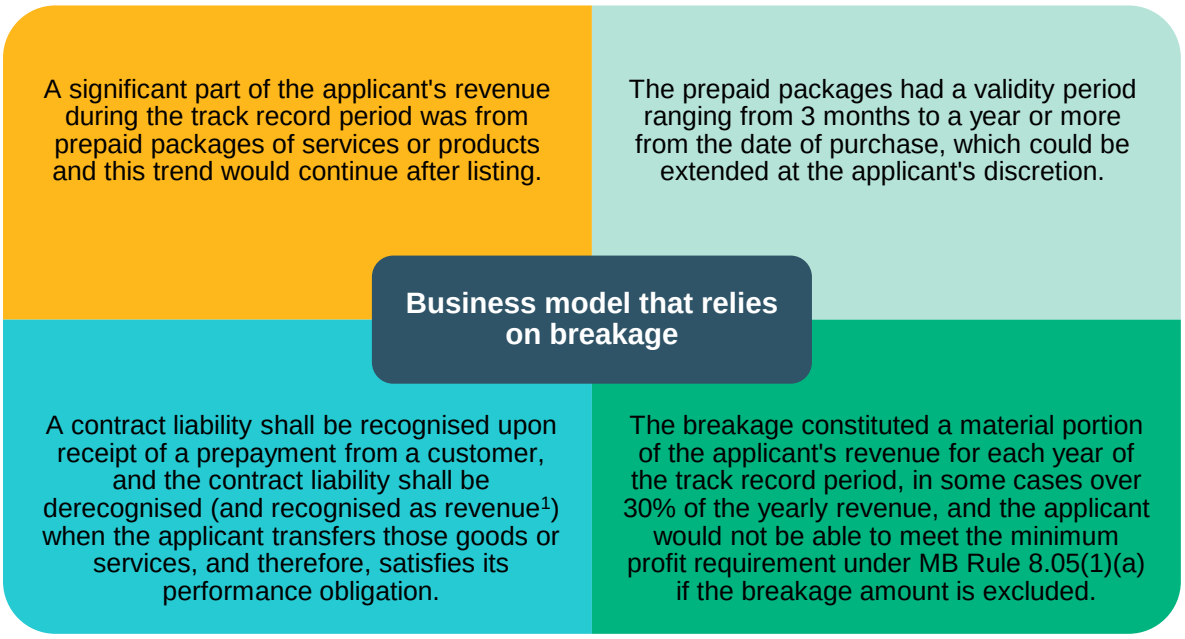


Figure 1

Potential Issues arising from Material Forfeited Income

3. Income for services and/or products not rendered and/or utilised may be regarded as revenue generated in the usual and ordinary course of business for the purpose of satisfying the financial eligibility requirement if it is an industry norm to include breakage in business operations (see **Chapter 1.1A** for guidance on financial eligibility requirements).

4. The Exchange will adopt a heightened standard of review on applicants with material forfeited income and the following characteristics:

   (i) Short history of operations with breakage;

[1] Under Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers", the estimated breakage shall be recognised as revenue either in proportion to the pattern of rights exercised by the customers, or when the likelihood of the customers exercising their rights becomes remote.

(ii) The extent of reliance on breakage is significantly above the industry norm[2], and if the breakage amount was excluded, the applicant might be unable to meet the financial eligibility requirement; and/or

(iii) Operation of business in an industry associated with high level of complaints or legal claims.

5. The Exchange might not consider the applicant to be suitable for listing, if, taking into account the totality of the facts, including the following:

(i) Continued reliance on breakage would potentially render the business not sustainable;

(ii) The business model relies on unethical selling methods; or

(iii) The applicant fails to demonstrate its capacity to provide contracted services/products.

General Disclosure and Submission Requirements

6. Given the characteristics discussed in paragraph 2, the listing document and submission to the Exchange should include the following:

Disclosure in the listing document	(i) The number of years that the applicant has derived revenue from breakage. (ii) The level of breakage compared to the total revenue of the business. (iii) The validity period of the prepaid packages, and whether and how the validity period may be extended. (iv) The number of and reasons behind complaints and claims received in respect of the prepaid packages, and procedures for registering and handling complaints. (v) The level of repeat customers, i.e. those who continue to buy further packages upon expiry of the previous prepaid packages, and the product/service mix of the repeat purchases. (vi) The products and services offered and the respective profit margins during the track record period and their correlation with breakage. (vii) The utilisation rate of the facilities to show that the applicant had and continues to have sufficient capacity to meet customers' needs even during peak periods and at popular locations. (viii) The associated risk of reliance on income from breakage, its financial impact on the applicant's business and details of any remaining rights that the relevant customers may exercise after the recognition of the breakage revenue.

[2] Exceptionally high level of breakage amount in the applicant's income portfolio compared to its industry peers may indicate that such income should not be considered as generated in the usual and ordinary course of business for the purpose of satisfying the financial eligibility requirement.

	(ix) Other internal control measures or policies (or the lack thereof): (a) Any policy on (1) refund of prepaid packages and (2) payment of commission to staff for selling prepaid packages. (b) Procedures to ensure the adoption of best practice guidance issued by consumer protection bodies and compliance with advertisement guidelines issued by competent authorities. (c) Guidelines on referring customers to certified professionals (e.g. medical practitioners) and the fee splits in those cases.
Submission to the Exchange	(i) An analysis on the outlook of the applicant's revenue and profit if breakage and related expenses were deducted from profits of the track record period. (ii) A comparative analysis with industry peers on the details of prepaid packages giving rise to breakage on disclosure items (i) to (v) listed above and on other material aspects of operations. (iii) Sponsor's confirmation that: (a) The applicant has adequate capacity to provide the contracted services/products under the prepaid package. (b) The internal control measures are adequate.

4.7 GAMBLING ACTIVITIES

1. This chapter covers applicants that engaged in gambling activities. Specifically, it covers the (i) general principles on suitability for listing; (ii) disclosure in a listing document; and (iii) post-listing guidance, for these applicants.

General Principles on Suitability for Listing

2. It would not be contrary to the public policy if an applicant's operations involve gambling activity that is not unlawful under relevant industry specific laws and regulations (e.g. the Gambling Ordinance (Cap. 148) [1]) and under the laws of the jurisdictions in which it takes place.

3. An applicant engaged in gambling activities must use its best endeavours to ensure that (i) it operates in a jurisdiction with an established licensing regime for gambling activities; and (ii) such activities comply with the applicable laws and regulations (including but not limited to regulatory requirements, licensing requirements and anti-money laundering laws), as well as government policies that regulate gambling activities ("**Applicable Laws**").

4. If the applicant's operations of gambling activities fail to comply with the Applicable Laws where such activities take place; and/or contravenes the Gambling Ordinance (Cap. 148), it will be considered unsuitable for listing under MB Rule 8.04 (GEM Rule 11.06).

Guidance on Disclosure

5. An applicant should include:

(i) The types of gambling activities operated by the applicant;

(ii) The Applicable Laws, including how such laws and regulations are administered and enforced and the controls implemented by the applicant to comply with them;

(iii) Confirmations from independent professional parties regarding the applicant's compliance status with all Applicable Laws, and the adequacy and effectiveness of its internal control measures implemented with respect to the operations of gambling activities and anti-money laundering; and

(iv) Specific risks in relation to its gambling operations (including the risk of suspension and cancellation of listing should such gambling operations become illegal).

[1] Such gambling activity has the following features: (i) it takes place outside Hong Kong; and (ii) the bookmaking transactions and the parties to the transactions are outside Hong Kong.

Post-listing Requirements

6. Similar to applicants, listed issuers which invest directly or indirectly in gambling activities must use its best endeavours to ensure that, so long as its shares are listed on the Exchange, such gambling activities comply with the Applicable Laws.

7. For listed issuers acquiring or investing in a gambling business, the disclosure in paragraph 5 would be required in addition to the disclosure requirements under MB Chapters 14 and/or 14A or MB Rule 13.09 (GEM Chapters 19 and/or 20 or GEM Rule 17.10). The extent of additional disclosure would depend on the materiality of the transaction to the listed issuer.

8. Any announcement and/or circular of the listed issuer on its investment in relation to the operations of gambling activities must confirm that the gambling activities are lawful and highlight the risk of suspension and cancellation of listing should the operations of the gambling activities fail to fulfil the above legality requirement.

9. Should the operations of such gambling activities (i) fail to comply with the Applicable Laws in the jurisdictions where such activities take place; and/or (ii) contravene the Gambling Ordinance (Cap. 148), the listed issuer may be considered unsuitable for listing under MB Rule 8.04 (GEM Rule 11.06). Depending on the circumstances of the case, the Exchange may direct the issuer to take remedial actions, suspend dealings in, or may cancel the listing of, its securities pursuant to MB Rule 6.01 (GEM Rule 9.01).

4.8 PAWN LOAN BUSINESS

1. This chapter provides guidance on disclosure in listing documents for applicants with pawn loan business.



Guidance on Disclosure

2. Applicants with pawn loan business are required to include the following information in the listing document:

Common Characteristics of Pawn Loan Business	Disclosure Requirements
Use of contractual arrangements due to legal restrictions	(i) Follow the guidance on the use of contractual arrangements by applicants in **Chapter 4.1**.
Highly regulated by laws and regulations	(i) The minimum registered capital requirements, which might vary depending on the type of collateral accepted by the applicant. (ii) The minimum working capital requirements, for each branch office and for the operating entity as a whole. (iii) How the value of pawned property was appraised. (iv) The maximum loan amount that might be provided on individual loans, to single customer, and in aggregate. (v) The maximum interest rate and administration fee that could be charged. (vi) The applicant's sources of funding and any restrictions on the type of person from whom a pawn loan provider could borrow money. (vii) Any restrictions on the business activities of the pawn loan providers, e.g. whether they could accept cash deposits in any form and whether they could provide loans to borrowers without any collateral. (viii) Any requirements for the establishment and implementation of procedures for the safe operations of the pawn loan business, e.g. proper maintenance of written records, reporting of suspicious persons, installation of various security systems and measures. (ix) See **Chapter 1.2D** for disclosure on non-compliances.
High credit risk and	(i) A discussion of the number and type of customers for each category of loan, how customers were introduced to the

Common Characteristics of Pawn Loan Business	Disclosure Requirements
default risk	applicant (e.g. referral by third parties, walk-in or repeat customers) and number of repeat customers. (ii) An analysis of loans by category (e.g. equity right pawn loans, personal property pawn loans and real estate pawn loans) and their proportion of the total loan amount. (iii) Detailed profiles for each category of loan, such as the number and total amount of new loans, average size of loans, average loan-to-value ratios, average surety ratios, average loan repayment periods (in days), number of loans renewed and loan renewal ratios, loan impairment ratios and impairment policies, etc. (iv) An analysis of major revenue streams (such as interest income, administrative fee income and other service or consultation income), with commentary on their fluctuations. (v) The revenue model and pricing policy for each type of product and service provided, including the range of interest rates and fees charged on each type of loan and service. (vi) Ageing analysis of loan receivables and the value of assets pledged for each ageing category, how renewed loans were recorded in the ageing analysis and their corresponding amounts, details of impairment and provisioning policies, and factors to be considered as an indication of impairment.
Significance of a sound internal control and risk assessment system	(i) The applicant should demonstrate that it has adopted sufficient measures in monitoring its risks, and disclose relevant details. The measures should normally cover areas such as: (a) Loan approval procedures. (b) Risk assessment (including both credit risk and market risk). (c) Legal and compliance procedures. (d) Anti-money laundering policies and the standards/regulations adhered to. (e) Collateral valuation. (f) How physical collateral is stored and the risks involved. (ii) The relevant experience of responsible management and working teams, and that regular training be provided to keep management and employees abreast of the latest market and regulatory developments.

Common Characteristics of Pawn Loan Business	Disclosure Requirements
	(iii) For measures relying on external professionals, the relevant experience of such professionals and the specific work performed by them (see **Chapter 6.1**).
Recoverability of loans and/or valuation of collateral has material financial impact	(i) Loan default rates. (ii) Details of loan collection methods and procedures, when they would be triggered and whether any part of the loan collection procedures was sub-contracted. (iii) Where collection agents are engaged, discussions on the laws/regulations these agents are required to comply with, their terms of engagement and measures to monitor their conduct. (iv) Procedures for seizing the underlying collaterals in the event of loan defaults, and where this occurred during the track record period, details of the procedures used. (v) How values of different types of collaterals are determined. (vi) The target loan-to-value ratio for each category of loan. (vii) The frequency of review of the collateral value and how subsequent changes in collateral value are accounted for. (viii) The procedures adopted to ensure that the borrowers have the legal right to offer the collateral. (ix) Where a third party appraiser is engaged, details of the engagement (such as engagement period, frequency of review, qualifications of the appraiser, etc.).
Multiple sources of financing	(i) A breakdown of the sources of funds available to the applicant during the track record period and the availability of each source (with reference to the latest market developments and government policies, where appropriate). (ii) Unutilised banking facilities available for drawdown as at the LPD. (iii) Details of any non-standard loan covenants.
Measures put in place to comply with relevant regulations	(i) A confirmation that there are procedures to ensure compliance with MB Chapter 14 (GEM Chapter 19) and MB Rules 13.13 to 13.15A (GEM Rules 17.15 to 17.17A)[1].

[1] Although a pawn loan provider provided loans (i.e. financial assistance) to customers in its ordinary course of business, these loans do not fall under the definition of "ordinary and usual course of business" under MB Rule 14.04(8) (GEM Rule 19.04(8)) (which only applies to banking companies and/or securities houses).

Common Characteristics of Pawn Loan Business	Disclosure Requirements
	(ii) If the applicant's existing loan profile has already exceeded the thresholds under the MB Rule 13.13 (GEM Rule 17.15), the relevant details.

4.9 RESTAURANT BUSINESS

1. This chapter provides guidance on disclosure in listing documents for applicants in the restaurant business.

Guidance on Disclosure

2. Applicants should disclose the following in the listing document:

Raw materials	(i) The price fluctuation and market price trends of the applicant's major food ingredients during the track record period and the impact on its track record results. (ii) How the applicant monitors and controls the costs of its major food ingredients and a cost sensitivity analysis for its major food ingredient. (iii) The sources of the applicant's major food ingredients, their shelf lives and the adequacy of quality control measures. (iv) The number of the applicant's authorised suppliers during the track record period and their average years of relationship with the applicant. (v) Measures to prevent any kickbacks from suppliers. (vi) Incidents of food supply interruption or shortage, or early termination of supply contracts during the track record period
Operating data	(i) Same-store sales and table/seat turnover rates during the track record period and a commentary on any material changes in these rates. (ii) Average spending per customer and average daily revenue for each restaurant and a commentary on any material changes therein during the track record period. (iii) The average time period for their new restaurants to break even.
Cash management	(i) The internal control system and procedures to prevent cash misappropriation/embezzlement by employees and collusion among employee. (ii) Any incidents of cash misappropriation/embezzlement during the track record period, and if so, the details of these incidents.
Trademarks	(i) Whether they own the trademarks and whether such trademarks have been duly registered.

		(ii) The actual and/or possible losses (monetary or otherwise) during the track record period suffered as a result of third party restaurants passing themselves off as part of the applicant group by using the same or similar names to those of the applicant group's restaurants, for example, a third party restaurant may have food safety issues and customers may wrongly assume that such restaurant is part of the applicant's group.
Pricing Policy		(i) Factors for determining the pricing policy of a restaurant (e.g. market trends, level of brand awareness and prices of competitors). (ii) Whether similar prices are charged across different restaurants, and if not, the factors considered when adopting the differential pricing strategy (e.g. target customers, market position, and locations of restaurants).
Expansion method	**Organic growth by self-operated restaurants**	(i) The number and movement of restaurants during the track record period, including explanation for termination or replacement of restaurants. (ii) The applicant's site selection criteria for new restaurants. Measures to prevent the applicant's new restaurants from competing with its existing restaurants such that the increase in the new restaurants' customer traffic will not result in a reduction of customer traffic in the existing restaurants. (iii) Details of the future expansion plans, including the number, location, types of restaurants to be opened, the expected timeline, investment cost, amounts incurred and committed as at the LPD, sources of funding, and how to manage the business expansion (e.g. procurement of supplies, management of human and other resources, quality control and management reporting). (iv) Competitive landscape including the existing competitive situation such as the number of similar brands and restaurants in the existing markets and target markets; the competitive threats faced by the applicant, and how the applicant compares with its major competitors in terms of market position, market share, brand name, characteristics and operating environment. (v) The strategy to sustain its growth and the factors for deciding its growth strategies.
	Growth by franchise agreements	(vi) The salient terms of the franchise agreement (e.g. the roles and obligations of the parties, consideration and related basis, settlement term, minimum number of restaurants to be opened, minimum investment amounts and termination clauses).

	(vii) Whether there was any breach of franchise agreement during the track record period, and if so, the details thereof. (viii) The significance of the franchise operations to the applicant (e.g. percentage of the revenue and net profit contributed to the applicant during the track record period). (ix) Measures to ensure that the franchised restaurants (1) operate according to the applicant's standards, and (2) would not cannibalise the applicant's own restaurants. Note: Profits arising from new restaurants may not be sustainable, for example, if there are too many competing restaurants in the market. The above disclosure is to enable investors to appraise the sustainability of the applicant's business.
Food Safety and Quality Control	(i) The quality control measures to ensure food safety across the entire value chain (i.e. from the purchase of raw materials and/or semi-processed food to storage, cooking and serving of food). (ii) The identity of senior management responsible for food safety and the number of staff engaged in quality control with their level of seniority, experience and background. (iii) The frequency and the basis of inspections carried out on suppliers by the applicant, and whether other inspection and testing agencies are involved in carrying out these inspections. (iv) Whether the applicant has been subject to any investigation regarding the food safety and quality of its restaurants by any government authorities, and the results.
Complaints	(i) The nature and number of complaints received by the applicant and their merits during the track record period. (ii) The applicant's procedures and measures to record and handle customers' complaints. (iii) Whether any incidents (e.g. food poisoning) occurred during the track record period, and if so, details of the incidents including the number of customers involved, reasons for the occurrence, penalties charged and the measures adopted by the applicant to remedy and prevent reoccurrence of similar incidents.

3. The required disclosure in paragraph 2 above should be supported by the sponsor's due diligence. For example, sponsors are expected to check with the relevant consumer protection organisations regarding any customer complaints/claims against the applicant.

4.10 VALUATION OF BIOLOGICAL ASSETS

1. This chapter applies to applicants engaging in agricultural activities [1] with biological assets, and provides guidance on (i) disclosure requirements for the listing document and due diligence/procedures expected to be performed by the sponsor and other professional parties; and (ii) unrealised fair value gain arising from valuation of biological assets for the purpose of trading record and profit requirements under MB Rule 8.05(1)(a).



2. Biological assets are living animals or plants that are measured at fair value less cost to sell under HKAS 41[2]. Biological assets are subject to high risk, given that they are perishable and their valuation is usually subject to higher uncertainty due to the complex and not-easily-verifiable assumptions adopted.

3. The Exchange expects an applicant to appoint an independent qualified valuer to value the biological assets unless cogent reasons are provided. In addition, an applicant should include specific information on its biological assets and their valuation in the listing document, and the sponsor and other professional parties should perform more stringent due diligence/ procedures on such assets.

Guidance on Disclosure and Due Diligence/Procedures

4. An applicant should include the following information in the "Financial Information" section in a listing document, and where appropriate, the accountants' report, and summarise it in the "Summary" section. The due diligence/procedures expected to be performed are also set out below.

Amount and significance	*Disclosure* (i) Net profit or loss during the track record period excluding unrealised fair value gains/losses on biological assets. (ii) Quantity and value of the biological assets and their significance to the net asset value, and details of the fair value measurement.
Valuer and valuation technique	*Disclosure* (i) Qualifications and experience of the valuer, and basis of the directors' and the sponsor's satisfaction as to its independence and competence.

[1] According to paragraphs 5 and 6 of HKAS 41 – Agriculture ("**HKAS 41**"), agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or conversion into agricultural produce or into additional biological assets. Such activity covers a diverse range of activities, for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming).

[2] See also HKFRS 13 – Fair value measurement.

	(ii) Reasons for using the specific valuation technique (i.e. quoted price in an active market, cost approach or discounted cash flow ("**DCF**") method), the material inputs and the bases and assumptions (especially the discount rates) on the foregoing, and where appropriate, historical yield and commentary on material fluctuations during the track record period. (iii) Basis of the sponsor's satisfaction as to the valuation technique and that the inputs used therein are appropriate and reasonable. (iv) A statement that the reporting accountants, for the purpose of the accountants' report, are satisfied that the valuation technique chosen and the inputs used in the valuation are appropriate and reasonable. (v) Details of the material cash flows used in the fair value measurement based on the DCF method, and confirmations from the directors and the sponsor that the components of cash flows used in fair value measurement are consistent with market factors and assumptions used in the measurement. (vi) Sensitivity analysis on changes in material inputs used in the valuation (e.g. discount rates, key assumptions and variables). *Due Diligence/Procedures* (vii) The sponsor should be satisfied that the independent valuer has (a) appropriate and adequate experience in valuation of the type of biological assets; (b) devised a scope of work appropriate to the valuation; and (c) adopted fair and reasonable bases and assumptions.
Asset existence and compliance	*Disclosure* (i) Details of the applicant's stock-take procedures, internal controls over physical existence of biological assets, and the record keeping on the foregoing. (ii) Details of the licences/rights/permits to carry out the agricultural activities. *Due Diligence/Procedures* (iii) The sponsor and the independent valuer should be satisfied with (a) the physical existence and the condition/development status (e.g. age and health) of the biological assets by their independent verification (including the extent of reliance on data and information provided by the applicant and details of independent fieldwork/physical inspections conducted); and (b) the quantity and valuation/measurement of the biological assets. (iv) The reporting accountants should be satisfied with (a) the physical existence of the biological assets by their independent verification (including the extent of reliance on data and information provided by the applicant and details of independent fieldwork/physical inspections conducted); and (b) the measurement of the biological assets.

	(v) The sponsor should confirm that it has independently verified (a) the validity and accuracy of the licences/rights/permits, including inspection of records maintained by the competent authorities; and (b) that the actual operations (including area covered by the operations) are consistent and in compliance with the relevant licences/rights/permits and records.
Risks and limitations	*Disclosure* (i) Risk factors that (a) unrealised fair value gains/losses on biological assets can fluctuate significantly from period to period, are non-cash in nature, and are derived from many assumptions; and (b) if material, reported profits may be more volatile as any increase in the selling prices of biological assets will increase both the sales revenue and the unrealised fair value gains and vice versa. *Due Diligence/Procedures* (ii) The sponsor should advise details of, and steps taken to address, any limitations on due diligence (e.g. limitation in stock take). The sponsor and the applicant should be mindful that serious limitations may render an applicant unsuitable for listing.

Trading Record and Profit Requirements

5. Sales of biological assets/agricultural produce[3] are the principal activities and the source of income actively derived from commercial transactions in the ordinary and usual course of business of an applicant that engages in agricultural activities. Hence, profits arising therefrom throughout the track record period are included for the purpose of satisfying MB Rule 8.05(1)(a). For unrealised fair value gains/losses from valuation of biological assets, although they may be generated during the ordinary and usual course of business of an applicant engaging in agricultural activities, such amount should be excluded for the purpose of meeting the minimum profit requirement given the nature and inherent risks relating to biological assets and their valuation.

6. The above treatment is unique to applicants engaging in agricultural activities and should not be applicable to all applicants which recognise unrealised fair value gains of their trading/principal assets under the applicable accounting standards (e.g. investment properties and investments in securities). See **Chapter 1.2A** for details.

[3] Agricultural produce is defined as the harvested product of the entity's biological assets under HKAS 41.

4.11 LAND AND PROPERTIES

1. This chapter provides guidance on the Exchange's approach towards (i) the properties with defective titles, particularly the implications of the absence of requisite land use right certificates and/or building ownership certificates ("**Title Certificates**") for land and properties involved in an applicant's business or operations; and (ii) other land and property matters, including (a) idle land; (b) civil defence projects; and (c) land resettlement operations. While the matters discussed in this chapter are issues typically associated with land and properties situated in Mainland China, the underlying principles are applicable to applicants with operations in other jurisdictions.

Properties with Defective Titles

Implications of the absence of requisite Title Certificates

2. Where the land and properties involved in an applicant's business are significant to its operations ("**Relevant Properties**") (e.g. property companies and infrastructure project companies), the Exchange expects the Relevant Properties to be supported by the requisite Title Certificates. Other documents (e.g. construction permits) may not be acceptable in lieu of Title Certificates. In the absence of the requisite Title Certificates for the Relevant Properties, the Exchange has discretion to consider, on a case-by-case basis, whether such defect would affect the applicant's suitability for listing, or can otherwise be addressed by way of disclosure (see paragraph 4 below). To facilitate the Exchange's assessment, the applicant should provide at least the following:

Risk of eviction	Whether the applicant has obtained evidence and/or confirmations from all applicable competent authorities that it has the right to use the Relevant Properties.
Contingency plans	Details and feasibility of the contingency plans (e.g. the availability of alternative project resources in the vicinity).
Rectification measures	Whether the applicant is in the process of applying for the Title Certificates for the Relevant Properties and any legal impediments to obtaining the same.
Business/ financial impact of the title defects	Risk of material penalties, the revenue contribution from the Relevant Properties, and where applicable, the applicant's contractual rights to seek indemnification from the relevant parties.
Internal control	Enhanced internal control measures adopted by the applicant to prevent recurrence of similar incidents.

3. Absence of the requisite Title Certificates for the Relevant Properties is one of the examples of defective titles of properties. If an applicant's operations involve other significant title defects, we would expect the applicant to provide the relevant information (including those in the above table) for the Exchange's assessment on the applicant's suitability for listing.

Disclosure guidance on properties with defective titles

4. If an applicant is able to demonstrate that its title defects of land and properties involved in its business or operations would not affect suitability for listing and can be addressed by way of disclosure, the applicant should include the following in the listing document:

   (i) The reasons for/usage of the properties with defective titles, number of properties and/or gross floor area involved and the amount of maximum potential liabilities (in monetary terms);

   (ii) The directors' view, with basis, on whether the properties with defective titles are individually or collectively crucial to the applicant's operations;

   (iii) The safety conditions of the properties with defective titles;

   (iv) A legal opinion, with basis, on whether the existence of title defects will prevent the properties from being bought, sold, accepted by banks as security or otherwise dealt in;

   (v) The additional land/rental cost an applicant would have to pay if the properties did not have defective titles (or an appropriate negative statement);

   (vi) Remedial actions or the reasons for not taking any remedial action, and whether there are any legal impediments to obtaining the outstanding certificates/permits (with the expected timeline); and

   (vii) Contingency plans (e.g. the estimated time and cost for relocation and/or demolition and loss of revenue and other related loss (if any), with basis), the feasibility of such plans, and how the possible relocation and/or demolition would affect an applicant's business and financial position.

Guidance on Other Land and Property Matters

5. The table below provides some general guidance on other land and property matters:

Idle land	Where an applicant (usually a property developer) is subject to legal restrictions regarding the construction plans and development timeframe for the land granted, it should disclose: (i) The legal and regulatory framework on idle land, and its potential impact on the applicant given the enforcement measures on forfeiture of idle land and/or land grant deposits; (ii) Details of non-compliance, including breaches of agreed development plans, payment obligations, construction timeframe or other terms under the land grant contracts which may lead to risks of forfeiture of idle land, land grant deposits or other penalties; (iii) Remedial actions or the reasons for not taking any remedial action; and (iv) Risk factors associated with idle land and the quantitative impact of the foregoing, where material.

Civil defence projects	Certain local laws encourage the public to invest in the construction of civil defence property. Investors in these civil defence property projects are permitted to use (including lease) and manage the properties in time of peace, and profit therefrom. Where an applicant's business involves civil defence property projects, it should disclose: (i) The gross floor area and carrying amount of the civil defence area of its property development projects and the significance to the applicant's property portfolio respectively; (ii) The usage/intended use and accounting treatment of the civil defence area (e.g. properties under development for sale, properties held for sale, investment properties or property, plant and equipment); (iii) The conditions for the use of civil defence property, the applicant's compliance with the relevant civil defence laws and related internal control measures; (iv) Where the applicant has used the civil defence area for its operations, whether the applicant has obtained relevant licences from competent authorities, and if not, disclose (a) whether, with the support of legal opinion, the use of the civil defence area has constituted or would constitute non-compliance; and (b) the risk of being penalised by relevant authorities (with the maximum potential penalty); and (v) Risk factors associated with the use of civil defence property.
Land resettlement operations	Where an applicant operates land resettlement, it should disclose: (i) The number of land resettlement agreements, the major terms thereof; and actual or potential total cost for, gain/loss due to completion of, the land resettlement operations; (ii) Whether the applicant performed the land resettlement operations by itself or engaged and supervised other parties, and the level of involvement from the local government authority; (iii) A legal opinion, with basis, whether the land resettlement operations have complied with the relevant laws and regulations (or an appropriate negative statement); and (iv) Risk factors associated with the land resettlement operations.

6. **Annex B.7** sets out the FAQs for this chapter.

4.12 LIQUIDITY ARRANGEMENTS FOR LISTING BY INTRODUCTION

1. This chapter provides guidance on the arrangements to facilitate liquidity of the securities[1] during the initial period of listing by introduction of securities that are already listed on another stock exchange where the securities held by existing holders need to be transferred to the applicant's Hong Kong register before they can be traded in Hong Kong. This chapter does not apply to a PRC company seeking to list H-shares on the Exchange by way of introduction upon converting its B shares into H shares. See Company A in **Annex A.16** for the acceptable arrangements of that scenario.

2. The purpose of the liquidity arrangements is to ensure an adequate supply of securities to meet the demand in the Hong Kong market, such that the securities will not be illiquid and the trading of these securities is conducted in a fair and orderly manner.

3. If there is no adequate and effective liquidity arrangement, applicants would need to re-consider whether listing by way of introduction is appropriate and whether other methods of listing such as offer for subscription or offer for sale should be adopted instead. An applicant whose securities are not actively traded in the overseas market would not usually be regarded as appropriate to list by way of introduction. As such, applicants are encouraged to seek early guidance from the Exchange on whether they are suitable for listing by way of introduction.

4. The applicability of the liquidity arrangements will be based, among other things, on an applicant's circumstances, its shareholding structure, availability of arbitrage opportunities between Hong Kong and the other market. When assessing the effectiveness of the liquidity arrangements, the Exchange will also assess the liquidity of the applicant's securities in the overseas market. Where appropriate, the Exchange may add to or modify the liquidity arrangements proposed by the applicant.



[1] For example, shares, depositary receipts and units under collective investment schemes.

5. The following table sets out the requirements for liquidity arrangements and ancillary matters:

Proposal	(i) Must submit the proposed liquidity arrangements for vetting when submitting the listing application. (ii) Should satisfy the Exchange that there are adequate and effective precautionary measures in place to help ensure that the securities can be traded on an orderly, informed and fair basis. (iii) Provide estimated demand in Hong Kong, with basis (e.g. based on historical trading statistics in overseas market and expected increase in trading in Hong Kong market), and demonstrate how the demand can be satisfied by the proposed arrangements.
Designated Period	(i) A period of three to six months commencing from the beginning of the pre-opening session (9:00 a.m.) on the first day of listing ("**Designated Period**") for the liquidity arrangements is usually accepted. (ii) A longer Designated Period may be required if there are concerns that there might not be sufficient shareholders in the Hong Kong market within a short period of time after the applicant's listing in Hong Kong.
Specific enhancement measures	(i) Batch transfer services – services to transfer existing securities from the overseas securities register to the Hong Kong register in pre-specified batches before and during the Designated Period to satisfy the expected demand in Hong Kong. (ii) Expedited transfer services – services to expedite transfers of existing securities from the overseas securities register to the Hong Kong register before and during the Designated Period at no or reduced cost to overseas securities holders. The Exchange has seen expedited transfer services which allow transfers between Hong Kong and the overseas market within two business days. (iii) Designated securities dealers ("**Designated Dealers**") – appointment of Designated Dealers during the Designated Period (see paragraphs 6 to 10). (iv) Investor education – adequate arrangements to inform the investing community in the Hong Kong and overseas markets of the securities transfer processes and the liquidity arrangements (see paragraphs 11 to 14). (v) Features similar to certain market making arrangements – applicants are encouraged to consider incorporating the features in the new market making arrangements for exchange traded products introduced by the Exchange in 2020 when designing their liquidity arrangements.

Designated Dealers

6. A Designated Dealer is responsible for conducting arbitrage, bridging and other trading arrangements in good faith and on arm's length terms with a view to contributing towards liquidity to meet demand for the applicant's securities in Hong Kong and maintain an orderly market. More than one Designated Dealer may be appointed. Where only one Designated Dealer is appointed, an alternate should be appointed.

7. Each Designated Dealer (including any alternate) must be a regulated entity acceptable to the Exchange. The Exchange will consider the dealer's experience when assessing suitability. Details of the Designated Dealers' specific obligations, including any pre-determined quantitative parameters in the dealing arrangements, should be provided to the Exchange for review prior to appointment.

8. All arbitrage, bridging and trading activities conducted during the Designated Period must comply with all applicable laws and regulations, and reasons must be provided for any exemptions sought. For this purpose, a Designated Dealer must ensure:

   (i) The arbitrage, bridging and/or trading arrangements are within the circumstances under paragraph 2.3 of the SFC's Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements and are not regarded as short selling in breach of section 170 of the SFO; or

   (ii) Exemptions from specific short-selling regulations under the Rules of the Exchange[2] have been obtained from the Exchange for the Designated Dealer to conduct covered short selling, input short selling orders that may be below the best current ask price and execute short sales of the securities during both the pre-opening and continuous trading sessions. A Designated Dealer is required to satisfy the conditions for short selling imposed.

9. A Designated Dealer should be prepared to place orders to meet the demand for the securities in Hong Kong swiftly in order to maintain an orderly market and may need to replenish its inventory during the Designated Period, including when there are no arbitrage trades conducted in real time in the overseas market. The Designated Dealer should consider the following:

(i) Conduct arbitrage, bridging trades in line with market practice in the context of dual listed securities during the Designated Period:
(a) When there is concurrent availability of the securities on both the overseas and Hong Kong stock exchanges; (b) When there is a meaningful price differential (as pre-determined by the Designated Dealer and provided to the Exchange); and (c) Where there is no trading in the overseas market because the overseas stock exchange is not open, alternative measures must be put in place to enable the Designated Dealer to meet the demand for the securities in Hong Kong.

[2] Including but not limited to Rule 563D and Eleventh Schedule of the Rules of the Exchange.

(ii) Build sufficient inventory of securities in Hong Kong to enable it to carry out arbitrage, bridging and/or trading activities during the Designated Period, which can be achieved through:

(a) Stock borrowing arrangement with existing holder of the securities to borrow the securities listed on the overseas exchange and remove the borrowed securities to the Hong Kong register before the commencement of trading and during the Designated Period; and/or

(b) Sale and repurchase agreement (with right to sell-back at the original price) with existing holder of the securities to build up sufficient inventory of securities before the commencement of trading and during the Designated Period.

10. Prior to execution of any arbitrage, bridging and trading activities, a Designated Dealer is required to set up designated broker identity number for the sole purpose of trades under the liquidity arrangements; and conduct testing with the Exchange to confirm readiness for the Designated Dealer's activities.

Investor Education

11. The applicant and its sponsor must ensure there is sufficient investor education in both the overseas and Hong Kong markets to provide details of the liquidity arrangements available in Hong Kong, including:

(i) Analyst briefings at applicable local brokerage/research institutions;

(ii) Public announcements in the overseas and Hong Kong market; and

(iii) AP, PHIP and listing document.

12. The applicant and its sponsor must ensure compliance with MB Rule 9.08 (GEM Rule 12.10) and the codes of conduct issued by the SFC when conducting investor education activities. The following table sets out the requirements for disclosures in Hong Kong:

Disclosure/Contents	Timing	Publication on	
		Exchange's website	Applicant's website
AP, PHIP and listing document (see paragraph 13)	See **Chapter 6.4**	✓	
Details of available pool of securities at the time of listing to meet demand on the Hong Kong market, including number of transfers under the batch transfer services and the inventory held by the Designated Dealer, and the designated broker identity number for carrying out liquidity activities	Not later than one business day before the commencement of trading	✓	✓
Closing price, trading volume and relevant historical trading data in the overseas market	On each of the three business days before the commencement of	✓	✓

	trading		
Developments and updates on the liquidity arrangements, e.g. update on the available pool of securities transferred to Hong Kong register under a staged transfer process	As soon as practicable after completion of each stage of the share transfer process after trading has commenced	✓	✓

13. The AP, PHIP and the listing document should contain updated details of:

(i) The transfer process of securities from the overseas register to the Hong Kong register and vice versa, including the time and costs involved during and after the Designated Period;

(ii) Special arrangements for batch and/or expedited transfer services provided by the applicant during the Designated Period. These should include period of availability, time and cost saved compared to the normal process;

(iii) Arbitrage, bridging and/or trading arrangements provided by the Designated Dealer and their related benefits; and

(iv) Investor education to be performed by the applicant and the sponsor.

14. In addition, the applicant is required to publicise the liquidity arrangements in the applicable overseas market in the follow manner:

Disclosure/Content 	(i) Details of the transfer services (including the related costs) provided by the applicant to facilitate the transfer of securities from overseas register to Hong Kong register.
Timing 	(i) As soon as practicable after finalisation of the liquidity arrangements, but no later than the publication of the listing document in Hong Kong.
Publication on 	(i) Overseas regulatory website or other media permitted by the relevant regulators in the overseas market; (ii) Applicant's website; and/or (iii) Corporate communication to securities holders.

Number and Spread of Shareholders

15. An applicant is required to have (i) a minimum number of 300 (GEM: 100) shareholders; and (ii) an adequate spread of shareholders (i.e. the three largest public shareholders must not hold more than 50% of the securities in public hands) at the time of listing.

16. As compared with new listings with an offering, applicants that are already listed and do not intend to effect an offering (e.g. reverse takeovers, listing by introduction and GEM transfers) have to estimate the number of shareholders to demonstrate their compliance with MB Rules 8.08(2) and 8.08(3) (GEM Rules 11.23(2)(b) and 11.23(8)) (the "**Relevant Shareholder Requirements**") at the time of listing. In practice, an applicant would demonstrate its compliance with the Relevant Shareholder Requirements at various stages of the application process, typically, when the listing application is submitted and before finalisation of the listing document for publication ("**Finalisation of Listing Document**").

At the time of submission of the listing application and before Finalisation of Listing Document

17. An applicant may estimate the number of shareholders/three largest public shareholders based on (i) the latest list of shareholders maintained by the share registrar ("**Share Registrar Report**") and the CCASS shareholding report ("**CCASS Report**"); and (ii) the disclosure of interest notices filed pursuant to Part XV of the SFO, together with reasonable assumptions made by the directors to estimate the number of shareholders/three largest public shareholders.

18. For example, if there are more than (i) 200 registered shareholders recorded in the Share Registrar Report and CCASS Report; and (ii) 50 shareholders which are financial institutions (e.g. banks and brokerage firms) in the CCASS Report likely to be holding shares on behalf of their respective clients and if it is reasonable to assume that each of the financial institutions would on average hold the applicant's shares on behalf of not less than two beneficial owners who are not shareholders under the Share Registrar Report, the applicant would be estimated to have not less than 300 shareholders.

19. Further, the sponsor should identify the applicant's core connected persons and conduct due diligence to ascertain the shareholding percentages of the public shareholders for the purpose of determining whether the three largest public shareholders hold more than 50% of the securities in public hands.

20. The Exchange may require an applicant to update its compliance with the Relevant Shareholder Requirements based on the latest available documents before Finalisation of the Listing Document.

Before dealings commence

21. An applicant may send out letters to each of the brokerage firms listed in the CCASS Report requesting them to provide the number of shares held by them and the full list of clients on whose behalf they hold the shares, so that a sufficiently detailed list of shareholders could be compiled based on the replies received, for the purpose of demonstrating compliance with the Relevant Shareholder Requirements.

4.13 RESTRICTIONS ON SHARE ISSUANCE/ DISPOSAL BY APPLICANTS AND EXISTING SHAREHOLDERS

1. This chapter provides guidance on (i) disposal restrictions on controlling shareholders of an applicant; and (ii) restrictions on an applicant to issue new securities, after listing.

Disposal Restrictions on controlling shareholders

2. MB Rule 10.07 (GEM Rule 13.16A) imposes disposal restrictions on the controlling shareholders of an applicant. In practice, the Exchange requires controlling shareholders of an applicant *as at the date of the listing document* to be subject to the disposal restrictions. See **Chapter 1.1C** for guidance on identification of controlling shareholders.

3. Disposal restrictions on controlling shareholders under the Listing Rules are divided into two phases. The first phase refers to the period starting from the date of the listing document and ending on the date which is six months from the listing date ("**First Lock-up Period**"), during which controlling shareholders are not permitted to dispose of any interests in the applicant. The second phase refers to the six months starting from the expiry of the First Lock-up Period ("**Second Lock-up Period**"), during which controlling shareholders can dispose of their interests in the applicant, but such disposal cannot result in them ceasing to be controlling shareholders.

4. Listed issuers may issue new shares after listing, resulting in a dilution of controlling shareholders' interests. For the avoidance of doubt, such dilution will be considered as a deemed disposal by the controlling shareholders, and the restrictions under MB Rule 10.07 (GEM Rule 13.16A) should be complied with.



Rationale of Disposal Restrictions on Controlling Shareholders

5. The listing document is giving potential investors a "snap shot" view of the applicant and a general indication of the controlling shareholder's intention for the applicant in the coming months. Investors act on the information in the listing document and on inferences which can reasonably be drawn from such information.

6. Investors will assume that the listing document gives a fair view of the controlling shareholder's intention regarding the number of shares it intends to retain or sell. The listing document should disclose any intention of the controlling shareholder in disposing of its interest in the applicant and, where there is no such disclosure, it would be reasonable for investors to expect that the controlling shareholder will maintain its interest in the applicant in the near future (unless the contrary is clearly and specifically stated).

WYBOTICS EX1041
Wybotics v. Zodiac
Page 242

7. The following examples illustrate how the disposal restrictions are implemented in certain scenarios:

	Scenarios	First Lock-up Period	Second Lock-up Period
(i)	The interest of a controlling shareholder will decrease to below 30% as a result of event which is certain to happen based on the disclosure in the listing document, e.g. issuance and/or sale of shares as part of the offering.	Yes	Not Applicable
	Rationale: *It is certain that the relevant shareholder would have ceased to be a controlling shareholder and the restriction that "cease[s] to be a controlling shareholder" during the Second Lock-up Period is not applicable.*		
(ii)	The interest of a controlling shareholder may decrease to below 30% as a result of (a) exercise of over-allotment option; or (b) conversion of convertible notes convertible at the option of the noteholder (see Company C in **Annex A.17**).	Yes – The controlling shareholders shall maintain at least the same number of shares until the end of the Second Lock-up Period.	
	Rationale: *Exercise of the over-allotment option and convertible bonds was uncertain at the time of the listing document and the controlling shareholder was prepared to remain as a controlling shareholder if such right was not exercised. As such, investors should be able to reasonably expect the relevant shareholder's involvement in the applicant during the Second Lock-up Period.*		
(iii)	A group of controlling shareholders, e.g. interest held through special purpose vehicle ("**SPV**") or parties acting in concert.	Yes – The group of controlling shareholders should maintain the same aggregate voting interests in the applicant	Yes – The group of controlling shareholders should remain to be a group of controlling shareholders
		• No addition or departure of shareholders from the group of controlling shareholders. • No material change in voting interests held by each controlling shareholder in the applicant and/or the SPV. Whether a change constitutes a material change will be assessed by the Exchange on a case-by-case basis.	

8. In addition, in the case of reverse takeover transaction which would be deemed as a new listing of the issuer's shares, the Exchange would generally grant waiver from MB Rule 10.07 (GEM Rule 13.16A) in respect of placing of existing shares by controlling shareholder upon completion of the reverse takeover transaction if (i) such transaction is to restore the public

float[1]; and (ii) the placing arrangement has been disclosed in the circular relating to the reverse takeover transaction.

Restrictions on Issuance of New Shares

9. MB Rule 10.08[2] provides that no further shares of a listed issuer may be issued or sold or transferred out of treasury or form the subject of any agreement to such issue, or sale or transfer out of treasury within six months from the date on which securities of the listed issuer first commence dealing on the Exchange except for those issued (i) under an approved share scheme; (ii) pursuant to exercise of conversion rights attached to warrants issued as part of the listing; (iii) under capitalisation issue or sub-division of shares; (iv) pursuant to an agreement entered prior to listing and disclosed in the listing document; and (v) by an issuer transferred from GEM provided that such plan has been prominently disclosed in the listing document or the transfer announcement.

10. The rationale is to protect public investors by preventing dilution of their interests and changes in the shareholding structure within six months of listing and by ensuring that the controlling shareholder demonstrates to potential investors their commitment to the applicant. The rule effectively protects shareholders from being called upon to contribute additional funding or see their interests being diluted within the restricted period.

11. See **Annex A.17** for listing decisions on waivers previously granted for issuing new securities within six months after listing.

[1] For reverse takeover transaction deemed as new listing, the public float requirements should be fulfilled on or before completion of the transaction and the Exchange ordinarily will not grant waiver from MB Rule 8.08 (GEM Rule 11.23) to allow time for restoration of public float after completion of the transaction.

[2] For GEM applicants, see GEM Rule 17.29.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 244

4.14 OFFERING-RELATED MECHANISMS

1. This chapter provides guidance on (i) initial allocation and clawback mechanism; (ii) restrictions on reallocation and over-allocation; (iii) pricing flexibility mechanism; (iv) waivers from MB Rule 9.09(b) (GEM Rule 12.11) for dealings by core connected persons before listing; and (v) offering advertisements and publicity materials.

Initial Allocation and Clawback Mechanism

2. Where an IPO includes both a placing tranche and a public subscription tranche, the prescribed allocation of shares to the public subscription tranche under paragraph 4.2 of MB Practice Note 18 ("**PN18**")[1] (paragraph 4 of GEM Practice Note 6) must be either one of the following:

Mechanism A

	Initial allocation	Number of times of oversubscription in the public subscription tranche		
		15 x to <50x	50x to <100x	≥ 100x
Prescribed percentage of share allocation to public subscription tranche	5%	15%	25%	35%

Mechanism B

A minimum initial allocation of 10% of offer shares to the public subscription tranche with no clawback mechanism. The maximum initial allocation to the public subscription tranche under Mechanism B is 60% of the offer shares because at least 40% of the total number of shares initially offered in an IPO must be allocated to investors in the placing tranche (other than Cornerstone Investors) under paragraph 3.2 of PN18*Note* (paragraph 3A of GEM Practice Note 6). Applicants and their sponsors are expected to set the initial allocation to the public subscription tranche based on their individual circumstances, including the IPO offer structure, prevailing market conditions and the interests of Hong Kong retail investors when it is anticipated that there would be significant public demand for the applicants' securities.

Note: Paragraph 3.2 of PN18 does not apply to an IPO of a Specialist Technology Company under MB Rule 18C.08A and at least 50% of the total number of shares offered in the IPO (excluding any shares to be issued pursuant to the exercise of any offer size adjustment option and/or over-allotment option) of a Specialist Technology Company must be taken up by independent price setting investors in the placing tranche (whether as Cornerstone Investors or otherwise) under MB Rule 18C.08.

3. The purpose of PN18 (GEM Practice Note 6) is to balance between ensuring a sufficient supply of shares to satisfy the demand of Hong Kong retail investors at IPOs and allowing applicants and underwriters a sufficient degree of commercial liberty to decide on offering structures.

4. The Exchange has granted waivers from strict compliance with PN18. The Exchange assesses every application for a waiver or modification of the Listing Rules on a case-by-case basis.

[1] For a Specialist Technology Company, paragraph 4.2 of PN18 is modified by MB Rule 18C.09, and Mechanism A and Mechanism B do not apply to a Specialist Technology Company.

Typical PN18 Waiver

The following are certain typical parameters of previously granted PN18 waivers ("**Typical PN18 Waivers**"):

(i) Size of an applicant's total offering (including any over-allotment option or sale of existing shares by shareholder) should be significant and the majority of previous applications for PN18 waivers had been for offerings over HK$10 billion

(ii) The following trigger points for oversubscription clawback had been accepted:-

	Initial allocation	Number of times of oversubscription in the public subscription tranche		
		15x to <50x	50x to <100x	≥ 100x
Minimum percentage of share allocation to public subscription tranche	5%	7.5%	10%	20%

5. In assessing deviation from the parameters of Typical PN18 Waiver, the Exchange had deliberated the following guidelines:

(i) Interest of Hong Kong retail investors – must give due regard to the interests of Hong Kong retail investors when it is anticipated that there would be significant public demand for the applicant's securities.

(ii) Earlier trigger points for oversubscription clawback – the clawback mechanism should be brought in as early as possible, i.e. the trigger multiples for oversubscription clawback should be as low as possible.

(iii) More share allocation to Hong Kong retail investors than a Typical PN18 Waiver – the number of shares allocated to Hong Kong retail investors under the offering structure should not be less than that under a Typical PN18 Waiver.

(iv) Understandability – the trigger points for oversubscription clawback should be easy to implement and for an average retail investor to understand.

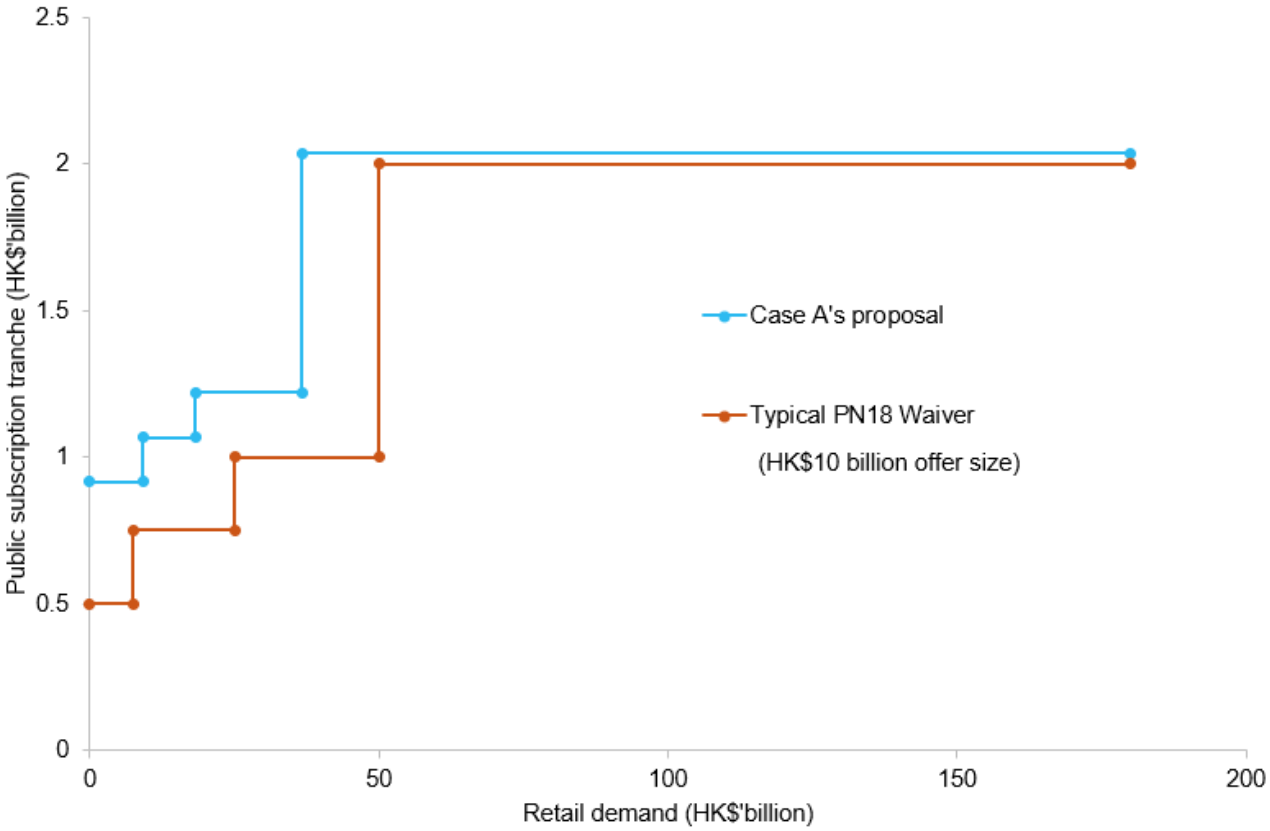
6. The following table summarises the differences between (i) Mechanism A under PN18; (ii) a Typical PN18 Waiver; and (iii) a deviation from Typical PN18 Waiver previously permitted (case A below):

	Offer size (HK$ billion)	Initial allocation	Number of times of oversubscription in the public subscription tranche		
			15x to <50x	50x to <100x	≥ 100x
Mechanism A under PN18 requirements[2]	Not specified	5%	15%	25%	35%

[2] For applicants with listing documents published on or after 4 August 2025.

Typical PN18 Waiver	At least 10	5%	7.5%	10%	20%
Case A[3]	Less than 10	15%	10x to <20x – 17.5% 20x to <40x – 20% ≥ 40x – 20% to 40%, the actual percentage of allocation to the public subscription tranche would be subject to the actual offer size, but in any event it would be no less than HK$2 billion in dollar amount		

7. Applicants should perform a comparison between their proposals on a deviation from the Typical PN18 Waiver and the Typical PN18 Waiver to ensure the factors discussed in paragraph 5 have been taken into account:



Restrictions on reallocation and over-allocation

8. There may be circumstances where an IPO is well-received by investors under the public subscription tranche while the demand in the placing tranche is weak and undersubscribed. To ensure investors under the public subscription tranche are not unfairly treated by being allocated shares that are not taken up by institutional and professional investors, there are restrictions on reallocation of offer shares from the placing tranche to the public subscription tranche ("**Reallocation**") and over-allocation to the public subscription tranche ("**PO Over-allocation**") (see paragraph 9 below). The table below summarises when the restrictions would apply (shaded in red):

[3] See Company C in **Annex A.18**.

Mechanism A

		Public subscription tranche		
		Undersubscribed	**Fully subscribed or oversubscribed by less than 15 times***	**Oversubscribed by 15 times* or more**
Placing tranche	**Undersubscribed**	IPO cannot proceed unless shortfall is taken up by underwriters	**Restrictions on Reallocation and/or PO Over-allocation**	
	Fully subscribed or oversubscribed	No Reallocation or PO Over-allocation†	**Restrictions on Reallocation and/or PO Over-allocation**	Clawback mechanism (see paragraph 2 above)

Mechanism B

		Public subscription tranche	
		Undersubscribed	**Fully subscribed or oversubscribed**
Placing tranche	**Undersubscribed**	IPO cannot proceed unless shortfall is taken up by underwriters	**Where initial allocation to the public subscription tranche is less than 15%, Restrictions on Reallocation and/or PO Over-allocation apply**
	Fully subscribed or oversubscribed	No Reallocation or PO Over-allocation†	**Where initial allocation to the public subscription tranche is less than 15%, Restrictions on Reallocation and/or PO Over-allocation apply**

* Or such minimum triggering threshold of the modified clawback mechanism (see "Initial Allocation and Clawback Mechanism" in this chapter above) previously agreed with the Exchange (if applicable).

† The shares which are undersubscribed in the public subscription tranche may be taken up by the placing tranche where there is insufficient demand in the former to take up the initial allocation.

9. Reallocation and PO Over-allocation are subject to the following restrictions:

Number of shares	The maximum number of shares permitted under public subscription tranche after Reallocation and/or PO Over-allocation shall be the lesser of: (i) Double of initial allocation to public subscription tranche; and (ii) 15% of the total offering (before over-allocation). (the "**Allocation Cap**")

Offer price	Must be fixed at the lower of: (i) Indicative offer price or bottom of the offer price range; and (ii) Downward adjusted final offer price under the Pricing Flexibility Mechanism, if adopted (see paragraph 13 below).

Disclosure requirements	*Prospectus, application forms and formal notice* (i) The right to conduct Reallocation and/or PO Over-allocation (where any such right is reserved). (ii) Number of shares of the Allocation Cap and its percentage of the total offering. *Allotment results announcement* *(where there is Reallocation and/or PO Over-allocation)* (iii) Number of shares and percentage of the total offering reallocated and/or over-allocated. (iv) Total number of shares in the public subscription tranche before and after the Reallocation and/or PO Over-allocation. (v) Confirmation by the OC[4] and each of the directors that the Allocation Cap has not been exceeded.

10. In respect of over-allocation to the placing tranche, it is allowed only if the number of shares in the placing tranche available for allocation is insufficient to satisfy the demand in the placing tranche (i.e. there is excess demand for shares under the placing tranche).

11. When determining whether the number of shares in the placing tranche available for allocation is insufficient to satisfy the demand in the placing tranche, shares taken up by the OC, other syndicate members or any other distributor; or placed to their connected clients, connected persons and/or existing shareholders of the applicant and their respective close associates will be disregarded unless consent and/or waiver referred to (see **Chapter 4.15**) has been obtained.

Pricing Flexibility Mechanism

12. The applicant, sponsor and OC should conduct a reasonably robust price discovery process before determining a realistic indicative offer price or price-range for inclusion in the listing document.

13. The Pricing Flexibility Mechanism, which allows the applicant to reduce the offer price by not more than 10% below the indicative offer price or offer price range ("**Downward Adjusted Offer Price**"), is intended to provide an applicant with additional flexibility in pricing its shares to facilitate the determination of the optimal price (which reflects the price discovered through the book-building process) after the close of the public subscription tranche. Investors' interests are safeguarded through the conditions imposed under the Pricing Flexibility Mechanism,

[4] See MB Chapter 3A (GEM Chapter 6A) for details of OC.

including price reduction limits and enhanced disclosure in the prospectus and other related documents.

14. The Pricing Flexibility Mechanism can be adopted if the following conditions are fulfilled:

	If an indicative offer price is adopted	If an offer price range is adopted
Final offer price	Not lower than 10% below indicative offer price	Not lower than 10% below the bottom of offer price range
Requirement on offer price range	N/A	Top of the range must not be more than 30% above the bottom of the range
Publication of a separate pricing announcement **(See suggested template in Appendix I to this chapter)**	As soon as practicable after the final offer price is determined and before the publication of the allotment results announcement: (i) Downward Adjusted Offer Price. (ii) Revisions to the net proceeds, use of proceeds, and market capitalisation. (iii) Confirmation from each director that, after taking into account the Downward Adjusted Offer Price, there is no material change of circumstances after the issue of the prospectus and there is sufficient working capital for the applicant's requirements for at least 12 months from the date of the prospectus.	
Disclosure requirements **(See suggested template in Appendix I to this chapter)**	*Prospectus, application forms and formal notice:* (i) Indicative offer price or offer price range and a prominent statement on the possibility of downward adjustment of offer price. *Prospectus and application forms* (ii) Disclosure of how the Downward Adjusted Offer Price will affect the applicant, including change in net proceeds and associated change in use of listing proceeds, impact on future expansion plans, sufficiency of working capital, cash flow and (if applicable) profit forecasts, and an appropriate risk factor . (iii) A statement that if the final offer price is more than 10% below the indicative offer price or the bottom of the offer price range, the applicant is required to cancel the offering and relaunch it at the revised price. (iv) A statement that the Pricing Flexibility Mechanism does not affect the applicant's obligation to issue a supplemental prospectus if there is a material change in circumstances not disclosed in the prospectus.	
Other requirements	(i) Must have taken into account the reduced proceeds when preparing the forecast memorandum and working capital sufficiency statement by directors.	

	If an indicative offer price is adopted	If an offer price range is adopted
	(ii) The Exchange has to be satisfied with the disclosure required above and that the Downward Adjusted Offer Price will not affect the applicant's suitability for listing.	

15. For the avoidance of doubt, an applicant which (i) has not adopted the Price Flexibility Mechanism but decides to lower the offer price; or (ii) has adopted the Price Flexibility Mechanism but the final offer price is more than 10% below the indicative offer price or the bottom of the offer price range (as the case may be), is required to first cancel the offering and relaunch it at the revised price with a supplemental or new prospectus, giving investors at least three business days to consider the new information, and complete the requisite settlement processes on the FINI platform.

16. The supplemental or new prospectus should include at least the following: updated (i) offer price and market capitalisation; (ii) listing timetable and underwriting obligations; (iii) price/earnings multiple, unaudited pro forma, adjusted net tangible assets; and (iv) use of proceeds and working capital sufficiency confirmation based on revised proceeds.

Waiver from MB Rule 9.09(b)/GEM Rule 12.11

17. MB Rule 9.09(b) prohibits dealing in the applicant's shares by any core connected person of the applicant from four clear business days before the Listing Committee hearing until listing is granted. The purpose is to prevent core connected persons from benefiting through dealing in those shares shortly before listing as they are deemed to have inside information and are in a position to influence the IPO process. MB Rule 9.09(b) does not apply to circumstances under MB Rule 7.11 where the share dealing is to achieve the required public float.

18. MB Rule 9.09(b) generally ceases to apply after an application has lapsed (i.e. 6 months after filing of listing application[5]), unless otherwise determined by the Exchange on a case-to-case basis.

19. For a MB Rule 9.09(b) waiver to be granted, applicants must:

    (i) Demonstrate that compliance with MB Rule 9.09(b) would be irrelevant or unduly burdensome based on the facts and circumstances of their case; and

    (ii) Disclose in the listing document the reasons for applying for a MB Rule 9.09(b) waiver and the waiver conditions attached.

20. Each MB Rule 9.09(b) waiver application will be considered on a case-by-case basis and the Exchange may modify or impose additional waiver conditions. Some non-exhaustive examples of waiver from MB Rule 9.09(b) are set out below:

    (i) The applicant's shares are already listed on another stock exchange (excluding trading-only status or over-the-counter trading status)[6] where its existing shareholders include independent and public investors whom may become a substantial shareholder of the applicant before it lists on the Exchange. In order not to restrict dealings by public investors, the Exchange may grant a waiver provided that:

[5] See MB Rule 9.03.
[6] See the note to MB Rule 9.09 for further guidance.

(a) The applicant has no control over the investment decisions of the public investors who may become its substantial shareholders before listing on the Exchange;

(b) The applicant will promptly release any price sensitive information to the public in its home jurisdiction;

(c) The applicant's existing core connected persons will not deal in the applicant's shares during the prohibited period under MB Rule 9.09(b); and

(d) The applicant will notify the Exchange of breach of dealing restriction by any core connected persons during the prohibited period.

(ii) The share dealing would not result in any change in the ultimate beneficial owners, for example, a distribution in specie by the legal holder of the shares to the ultimate controlling shareholders on a pro-rata basis.

(iii) The share dealing is due to a corporate reorganisation.

(iv) There was a pre-existing shareholder agreement for the distribution of shares in a particular way so as not to dilute the shareholdings of the original shareholders.

(v) The share dealing is due to a need to comply with the Listing Rules, for example:

(a) To unwind a non-compliant pre-IPO investment; or

(b) To revise the applicant's corporate structure which involves issuing more shares to the controlling shareholder as consideration for injecting its business into the applicant to address concern on conflicts of interest posed by the controlling shareholder's business.

21. Dealing in shares by core connected persons during the prohibited period under MB Rule 9.09(b) may fall under and subject to the requirements for the pre-IPO investment (see **Chapter 4.2**).

22. GEM Rule 12.11 prohibits dealing in the applicant's shares by any core connected person of the applicant from time of submission of the listing application until listing is granted. Applicants which intend to apply for a waiver from GEM Rule 12.11 can refer to the guidance set out in paragraphs 18 to 21 above.

Publicity Materials and Offer Awareness Materials

23. Publications relating to an issue of securities by a new applicant may fall under the scope of (i) publicity materials under MB Rule 9.08 (GEM Rule 12.10) (**"Publicity Materials**"); and/or (ii) offer awareness materials ("**Offer Awareness Materials**") under the Offer Awareness Guidelines[7], and are subject to the requirements of the Listing Rules and the Offer Awareness Guidelines. The "Relevant Regulatory Requirements" section in this chapter sets out the relevant requirements in respect of such materials. Publicity Materials may, in whole or partly, also be considered as Offer Awareness Materials. If so, both the Listing Rules and the Offer Awareness Guidelines must be complied with.

[7] Guidelines on Use of Offer Awareness and Summary Disclosure Materials in Offerings of Shares and Debentures under the C(WUMP)O issued by the SFC ("**Offer Awareness Guidelines**").

24. Publicity Materials generally require the consent of the Exchange before they can be released[8]. The overriding principle is that material information of an applicant should be included in and released in the form of a listing document to enable an investor to make an informed assessment of its activities, assets and liabilities, financial position, management and prospects. Accordingly, a purposive approach is adopted to assess whether publicity materials relate to an issue of securities and whether to consent to them.

25. Even though certain publicity materials may on their face appear to be for the purpose of promoting an applicant, its products or business, the Exchange normally considers a material to be Publicity Material and is inclined not to consent to its publication if it is:

    (i) Not commensurate with the particular nature of the applicant's business, products, customers or markets;

    (ii) Presented in a manner which makes them likely to be read together with information related to the public offering; and/ or

    (iii) Likely to condition the market ahead of the issue of the prospectus and affect perceptions of the upcoming offer. In assessing whether the information may condition the market, the Exchange will consider all relevant circumstances, including the nature of the applicant's business, its advertising history, the form of the publicity materials and the way they are presented.

26. Pursuant to the Offer Awareness Guidelines, Offer Awareness Materials are publicity materials that, among other things, (i) are strictly limited to communicating procedural and administrative information regarding the proposed offer; and (ii) do not promote the applicant or the offer. The Offer Awareness Guidelines also set out criteria for determining Offer Awareness Materials.

27. The Exchange's consent is normally not required for advertisements on electronic methods for subscription of IPO shares ("**E-IPO Advertisements**") that are Offer Awareness Materials. However, applicants and sponsors should ensure such advertisements:

    (i) Fully meet the criteria for Offer Awareness Materials under the Offer Awareness Guidelines;

    (ii) Follow the "Guidelines for Electronic Public Offerings" issued by the SFC ("**ePO Guidelines**"); and

    (iii) Follow the relevant guidance in **Chapter 3.14** regarding the listing document cover if there are images, photos or pictures in the E-IPO Advertisement. The Exchange will not object to E-IPO Advertisements using the same design used on prospectus covers.

28. Applicants and sponsors should also ensure compliance with the requirements under the Listing Rules regarding Publicity Materials and the C(WUMP)O, SFO and other statutory requirements regarding "advertisements" (see "Relevant Regulatory Requirements" section in this chapter below), especially where materials are issued shortly before or during the offer period, and regardless of the form of the materials. Similarly, OCs should take into account the guidance in this chapter when advising the applicant in connection with the placing and related marketing activities under paragraph 21.4.2 of the Code of Conduct for Persons Licensed by or Registered with the SFC.

[8] Except for those documents that are specifically excluded under MB Rule 9.08(2) (GEM Rule 12.10(2)).

29. The Exchange will take strict measures against unauthorised publicity materials, including suspension of vetting until all unauthorised publicity materials are withdrawn and delaying the listing timetable so that the influence of unauthorised promotion has “cooled-off”.

Relevant Regulatory Requirements

Listing Rules

(i) Under **MB Rule 9.08 (GEM Rule 12.10)**, publicity materials relating to an issue of securities by a new applicant must comply with all statutory requirements and can only be released after they are reviewed by the Exchange. Non-compliance can result in delay of the applicant's listing timetable.

(ii) **MB Rules 9.08(1) and (2) (GEM Rules 12.10(1) and (2))** set out publicity materials and certain documents that do not require the Exchange's prior review.

C(WUMP)O

(i) **Section 38B(1) of the C(WUMP)O** makes it an offence to publish (a) by way of advertisement any extract from or abridged version of a prospectus; or (b) an advertisement relating to a prospectus or proposed prospectus, relating to shares or debentures of a company whether incorporated in or outside Hong Kong.

(ii) **Section 38B(2) of the C(WUMP)O** sets out a number of exceptions to the requirements under Section 38(B)(1) of the C(WUMP)O.

SFO

(i) **Section 103 of the SFO** makes it an offence, unless SFC's authorisation for issue is obtained under section 105 of the SFO, to issue any advertisement, invitation or document which to the issuer's knowledge is or contains an invitation to the public to enter into or offer to enter into an agreement to deal in securities.

(ii) **Sections 103(2) and (3) of the SFO** contain a number of exceptions to the general prohibition. Section 103(3)(a)(iii) exempts a publication falling under section 38B(2) of the C(WUMP)O.

Other Regulatory Guidelines

(i) Guidelines on Use of Offer Awareness and Summary Disclosure Materials in Offerings of Shares and Debentures under the C(WUMP)O were issued by the SFC in March 2003 to clarify SFC's view regarding the treatment of certain types of materials which are issued to the public in Hong Kong in connection with an offer of shares or debentures made by a prospectus.

(ii) The ePO Guidelines were issued by the SFC in April 2003 to provide guidance to persons who offer electronic public offering services.

Appendix I - Suggested templates for the required disclosures (as shown underlined):

These templates are for reference only. Applicants and their sponsors should exercise judgment as to the applicability of the suggested templates to their cases.

A. Extracts of Prospectus:
- **Important section**
- **Summary and other sections**
- **Definitions section**
- **Risk Factors section**
- **Information About the Global Offering section**
- **Financial Information section**
- **Future Plans and Use of Proceeds section**
- **Structure of the Global Offering section**

B. Extracts of Formal Notice

C. Price Reduction Announcement

For illustrative purpose, the following fixed offer price and offer price range are used in the suggested templates:

Scenario 1: Offer Price (Fixed)	***HK$6.50***
Scenario 2: Offer Price (Range)	***HK$6.50 to HK$8.45***

IMPORTANT: If you are in any doubt about the contents of this prospectus, you should seek independent professional advice.

[Company Logo]
[Company Name]
[公司名稱]
(Incorporated in the [jurisdiction] with limited liability)
GLOBAL OFFERING

Number of Offer Shares under the Global Offering:	[number]
Number of Hong Kong Offer Shares:	[number]
Number of International Offer Shares:	[number] (subject to reallocation)

If Fixed Offer Price is used

Offer Price (subject to a Downward Offer Price Adjustment):	[HK$[6.50] per Hong Kong Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund) *(If the Offer Price is set at 10% below the indicative Offer Price after making a Downward Offer Price Adjustment, the Offer Price will be HK$[5.85] per Hong Kong Offer Share)**

OR

If Offer Price Range is used

Offer Price (subject to a Downward Offer Price Adjustment):	[HK$[6.50] to HK$8.45] per Hong Kong Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full at the maximum offer price on application in Hong Kong dollars and subject to refund) *(If the Offer Price is set at 10% below the bottom end of the Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK$[5.85] per Hong Kong Offer Share)**
Nominal value:	HK$[nominal price] per Share
Stock code:	[Company's stock code]

Overall Coordinators
(in alphabetical order)
[Logo and Name of each of Overall Coordinators]

Joint Global Coordinators
(in alphabetical order)
[Logo and Name of each of Joint Global Coordinators]

Joint Sponsors
(in alphabetical order)
[Logo and Name of each of Joint Sponsors]

Joint Bookrunners
(in alphabetical order)
[Logo and Name of each of Joint Bookrunners]

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors". The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Overall Coordinators / Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination".

[Date of prospectus]

A. Suggested Template: Extract of Prospectus

EXPECTED TIMETABLE

Latest time to complete electronic applications under the White Form eIPO service through the designated website at **www.eipo.com.hk**…….....	[time, date]
Application lists open..... …….....	[time, date]
Latest time for completing payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) and giving **electronic application instructions** to HKSCC..... ….....	[time, date]
If you are instructing your broker or custodian who is a HKSCC Clearing Participant or a HKSCC Custodian Participant to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.	
Application lists close……	[time, date]
Expected Price Determination Date…….....	[time, date]
Where applicable, announcement of the Offer Price being set below **[**the indicative Offer Price**]*[**the bottom end of the Offer Price range**]*** after making a Downward Offer Price Adjustment (see the section headed "Structure of the Global Offering - Determining the Offer Price") on the website of the Stock Exchange at **www.hkexnews.hk** and the Company's website at **[company's website]** on or before……..…….....	***(in a separate announcement)***[1] [time, date]
(1) Announcement of the final Offer Price; an indication of the level of interest in the International Offering; the level of applications of the Hong Kong Public Offering; and the basis of allocation of the Hong Kong Offer Shares to be published on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **[company's website]** on or before……	[time, date]
(2) Results of allocations in the Hong Kong Public Offering to be available through a variety of channels (see the section headed "How to Apply for Hong Kong Offer Shares-Publication of Results")…….	[time, date]
(3) Results of allocations in the Hong Kong Public Offering will be available at [**the relevant website**],…… ……	[time, date]
Despatch of share certificates on or before ……...	[time, date]
Despatch of HK eIPO White Form e-Auto Refund payment instructions/refund cheques on or before……	[time, date]
Dealings in the Shares expected to commence on……..	[time, date]

The above expected timetable is a summary only. You should read carefully the sections headed "Underwriting", "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Public Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

1. To be announced as soon as practicable after the Price Determination Date but before the allotment result announcement

*Delete as appropriate

SUMMARY

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and [number] Shares are issued pursuant to the Global Offering; and (ii) [number] Shares are issued and outstanding following the completion of the Global Offering.

	Based on an Offer Price of HK$[5.85] per Offer Share, after Downward Offer Price Adjustment of 10%	**Based on an Offer Price of HK$[6.50] per Offer Share**	**[Based on an Offer Price of HK$[8.45] per Offer Share**
Market capitalisation of our Shares (1)	HK$[•]million	HK$[•]million	HK$[•]million
Unaudited pro forma adjusted net tangible asset per Share (2)	HK$[•]	HK$[•]	HK$[•]]*

Notes:

(1) The calculation of market capitalisation is based on [number] shares expected to be in issue immediately upon completion of the Global Offering.

(2) The unaudited pro forma adjusted net tangible asset per Share as at [date] is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that [number] shares are expected to be in issue immediately upon completion of the Global Offering.

***

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following our unaudited pro forma adjusted combined net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA for illustration purpose only, and is set out below to illustrate the effect of the Global Offering on our audited combined net tangible assets as of [date] as if it had taken place on that date.

Our unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of [date] or any future date. It is prepared based on our combined net tangible assets as of [date] as set out in the section headed "Accountants' Report" in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets attributable to owners of our Company as of [date] (1) (HK$'000)	**Estimated net proceeds from the Global Offering(2) (HK$'000)**	**Unaudited pro forma adjusted combined net tangible assets(3) (HK$'000)**
Based on an Offer Price of HK$[5.85] per Offer Share, after a Downward Offer Price Adjustment of 10%	[•]	[•]	[•]
Based on an Offer Price of HK$[6.50] per Offer Share	[•]	[•]	[•]
[Based on an Offer Price of HK$[8.45] per Offer	[•]	[•]	[•]]*

Share*

Notes:

(1) The audited combined net tangible assets attributable to owners of our Company as of [date] is extracted from the Accountants' Report, which is based on the audited combined net assets attributable to owners of our Company as of [date] of approximately HK$[•] million less the intangible assets of our Group as of [date] of approximately HK$[•] million.

(2) The estimated net proceeds from the Global Offering are based on [the Offer Price of HK$[6.50]]* per Offer Share **[**HK$[6.50]]* and HK$[8.45] per Offer Share, being the lower end and higher end of the Offer Price range respectively**]*** and also based on an Offer Price of HK$[5.85] per Offer Share after making a Downward Offer Price Adjustment of 10%, after deduction of the estimated underwriting fees and other related expenses payable by our Company.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on [number] Shares in issue immediately following the completion of the Global Offering.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by [name], Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set forth in Appendix I to this prospectus, and is included in this appendix for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on [date] and based on the audited combined net tangible assets attributable to owners of our Company as at [date] as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

This audited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at [date] or at any future date.

	Audited combined net tangible assets attributable to owners of our Company as of [date] (1) (HK$'000)	**Estimated net proceeds from the Global Offering(2) (HK$'000)**	**Unaudited pro forma adjusted combined net tangible assets(3) (HK$'000)**
Based on an Offer Price of HK$[5.85] per Offer Share, after a Downward Offer Price Adjustment of 10%(4)	[•]	[•]	[•]
Based on an Offer Price of HK$[6.50] per Offer Share(4)	[•]	[•]	[•]
[Based on an Offer Price of HK$[8.45] per Offer Share(4)	[•]	[•]	[•]]*

Notes:

(1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at [date] are extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the unaudited combined net assets of the Group attributable to the owners of the Company as at [date] of approximately HK$[•] million less the intangible assets of the Group as at [date] of approximately HK$[•].

(2) The estimated net proceeds from the Global Offering are based on [the Offer Price of HK$[6.50]]* per Offer Share [[HK$[6.50] and HK$[8.45] per Offer Share, being the lower end and higher end of the Offer Price range respectively]*, and also based on an Offer Price of HK$[5.85] per Offer Share after making a Downward Offer Price Adjustment of 10%, after the deduction of total estimated underwriting commissions and fees and other listing related expenses payable by the Company.

(3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at [date] per Share is determined after the adjustments referred to the preceding paragraphs and on the basis of [number] Shares were in issue assuming that the Global Offering have been completed on [date].

(4) No adjustment has been made to reflect any trading or other transactions of the Group entered into subsequent to [date].

*Delete as appropriate

A. Suggested Template: Extract of Prospectus

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

...

"Downward Offer Price Adjustment"	an adjustment that has the effect of setting the final Offer Price up to 10% below the **[**indicative Offer Price**]*** **[**the bottom end of the Offer Price range**]***.

…

"Offer Price"	the final price per Offer Share in [Hong Kong dollars] (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%) at which Offer Shares are to be subscribed of **[**HK$[•]**]** per Offer Share / to be determined in the manner described in [Structure of the Global Offering] section of prospectus], subject to any Downward Offer Price Adjustment.

...

*Delete as appropriate

RISK FACTORS

RISKS RELATING TO THE SHARE OFFER

Possible setting of the Offer Price after making a Downward Offer Price Adjustment

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the [indicative Offer Price/ bottom end of the Offer Price range]* per Offer Share. It is therefore possible that the final Offer Price will be set at [HK$5.85] per Offer Share upon the making of a full Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the requirements under Rule 11.13 of the Listing Rules will not apply. If the final Offer Price is set at [HK$5.85], the estimated net proceeds we will receive from the Global Offering will be reduced to HK$[amount] and such reduced proceeds will be used as described in the "Future Plans and Use of Proceeds section – Use of Proceeds" section.

***

*Delete as appropriate

A. Suggested Template: Extract of Prospectus

INFORMATION ABOUT THE GLOBAL OFFERING

Issuer	[Company name]
The Offering	Global Offering of initially [number] Shares comprising (the International Offering of initially [number] Shares
[Indicative Offer Price]* *or* [Offer Price range]*	**[**HK$[6.50] **]*** *or* **[**HK$[6.50] to HK$[8.45]**]***
Downward Offer Price Adjustment	We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect our obligation to cancel the offer and relaunch it with a supplemental prospectus or a new prospectus if there is a material change in circumstances not disclosed in the prospectus and we decide to proceed with the offer. If it is intended to set the final Offer Price at more than 10% below the **[**indicative Offer Price**]*** **[**bottom end of the Offer Price range**]***, we will first cancel the offer and then relaunch it at the revised offer price and the requirements under Rule 11.13 of the Listing Rules will apply if the Global Offering is to proceed.
Shares outstanding after the Offering	[number]
Lock-up undertakings by the Company and the Controlling Shareholders	[details to be provided by the applicant].
[Dividend policy]*	[details to be provided by the applicant].
Stamp Duty	[details to be provided by the applicant].
Application for listing on the Stock Exchange	[details to be provided by the applicant].
[Restrictions on offers and offers for sale]*	[details to be provided by the applicant].

***

*****Delete as appropriate

FINANCIAL INFORMATION

Working capital

Our Directors are of the opinion that, taking into consideration **[**the internal resources and banking facilities presently available to our Group, cash generated from our operation**]** and the estimated net proceeds to be received by us from the Share Offer (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below the **[**indicative Offer Price**]*** **[**the bottom end of the Offer Price range**]***), our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months commencing from the date of this prospectus.

***

***Delete as appropriate**

WYBOTICS EX1041
Wybotics v. Zodiac
Page 263

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed "Business - Our Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$[amount] million (assuming an Offer Price of [HK$[6.50] per Offer Share]* or [HK$[7.48] per Offer Share, being the mid-point of the Offer Price range]*), after deducting the underwriting fees and commissions (assuming the full payment of the discretionary incentive fee) and estimated expenses payable by the Company.

We intend to use the net proceeds we will receive from the Global Offering for the following purposes:

(1) approximately [•]% of the net proceeds will be used for [•];

(2) approximately [•]% of the net proceeds will be used for [•];

(3) approximately [•]% of the net proceeds will be used for [•]; and

(4) the remaining amount will be used for providing funding for working capital and other general corporate purposes.

Our Directors believe that we have sufficient mechanism in place to ensure proper application of the use of proceeds on inventories. As part of our internal controls relating to management and procurement of inventory, we have in place a monthly procurement plan for the inventories of each product type. Our procurement plan is based on our anticipated sales level. Our finance department also closely monitors the actual procurement of inventories and the payment amount. Subsequent to the Listing, we will prepare a report on the use of proceeds, including the amount for sourcing and procurement of raw materials and inventory, for our reporting accountants and our audit committee semi-annually.

[In the event that the Offer Price is set at HK$[6.50] per Offer Share (being the bottom end of the Offer Price range), the estimated net proceeds we will receive will be reduced by approximately HK$[amount]. In the event that the Offer Price is set at HK$[8.45] per Offer Share (being the top end of the Offer Price range), the estimated net proceeds we will receive will be increased by approximately HK$[amount].]* To the extent our net proceeds are either more or less than expected, we will [applicant to provide details on the proposed use of proceeds]. If we make a Downward Offer Price Adjustment to set the final Offer Price at [HK$5.85] per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced by an additional amount of approximately HK$[amount]. To the extent our net proceeds are further reduced we will [applicant to provide details on the proposed use of proceeds].

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

***

* Delete as appropriate

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Determining the Offer Price

Pricing of the Offer Share for the purpose of the various offerings under the Global Offering will be set on the Expected Price Determination Date, which is expected to be on or around [date] but in any event no later than [date], and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

[The Offer Price will be HK$[6.50] per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the Offer Price of HK$[6.50] per Offer Share, plus 1% brokerage, 0.027% SFC transaction levy, 0.00565% Stock Exchange trading fee and AFRC transaction levy of 0.00015%, amounting to a total of HK$[amount] for one board lot of [number] Shares. Prospective investors should be aware that the Offer Price to be determined on the Expected Price Determination Date may be, but is not expected to be, lower than Offer Price stated in this prospectus (subject to a Downward Offer Price Adjustment).**]*** If Fixed Offer Price is used

OR

[The Offer Price will not be more than HK$[8.45] per Offer Share and is expected to be not less than HK$[6.50] per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK$[8.45] per Offer Share plus 1% brokerage, 0.027% SFC transaction levy, 0.00565% Stock Exchange trading fee and AFRC transaction levy of 0.00015%, amounting to a total of HK$[amount] for one board lot of [number] Shares. Prospective investors should be aware that the Offer Price to be determined on the Expected Price Determination Date may be, but is not expected to be, lower than the bottom end of the Offer Price range stated in this prospectus (subject to a Downward Offer Price Adjustment).**]*** If Offer Price range is used

Announcement of Offer Price Reduction

[The Overall Coordinators/Joint Global Coordinators/Joint Bookrunners]* (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the consent of the Company, determine the final Offer Price to be no more than 10% below the [indicative Offer Price]* [bottom end of theOffer Price range]*, at any time on or prior to the Expected Price Determination Date.

In such situation, the Company will, as soon as practicable following the decision to set the final Offer Price below the [indicative Offer Price/ bottom end of the Offer Price range]*, publish on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (company's website) an announcement of the final Offer Price after making a Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations expected to be announced on [date]. The Offer Price announced following making of a Downward Offer Price Adjustment shall be the final Offer Price and shall not be subsequently changed.

In the absence of an announcement that a Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the [indicative Offer Price]* [Offer Price range]*as disclosed in this prospectus.

Announcement of Final Offer Price

Irrespective of whether a Downward Offer Price Adjustment is made, the final Offer Price, an indication of the level of interest in the International Offering, the basis of allocation of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed "How to Apply for Hong Kong Offer Shares - Despatch/Collection of Share Certificates and Refund Monies".

***

*Delete as appropriate

B. Suggested Template: Extract of Formal Notice

*This announcement is for information purposes only and does not constitute an offer or an invitation by any person to acquire, purchase or subscribe for securities. Potential investors should read the prospectus dated [date of prospectus] (the "**Prospectus**") issued by [Name of company] (the "**Company**") for detailed information about the Company and the Global Offering before deciding whether or not to invest in the shares being offered.*

*Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited ("**HKSCC**") take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement is not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any state of the United States and the District of Columbia). This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities mentioned herein have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**"). The securities may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States.*

Unless defined herein, terms used in this announcement shall have the same meanings as those defined in the Prospectus.

[Company Logo]
[Company Name]
[公司名稱]
(Incorporated in [jurisdiction] with limited liability)
Global Offering

Number of Offer Shares under the Global Offering:	**[number]**
Number of Hong Kong Offer Shares:	**[number]**
Number of International Offer Shares:	**[number] (subject to reallocation)**

If Fixed Offer Price is used

Offer Price (subject to a Downward Offer Price Adjustment[1]):	**HK$[6.50] per Hong Kong Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% payable in full on application in Hong Kong dollars and subject to refund)** ***(If the Offer Price is set at 10% below the indicative Offer Price after making a Downward Offer Price Adjustment, the Offer Price will be HK$[5.85] per Hong Kong Offer Share)****

OR

If Offer Price range is used

[Offer Price (subject to a Downward Offer Price Adjustment[1]):	**Not more than [HK$8.45] and not less than [HK$6.50] per Hong Kong Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full at the maximum Offer Price on application in Hong Kong dollars and subject to refund)** ***(If the Offer Price is set at 10% below the bottom end of the Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK$[5.85] per Hong Kong Offer Share)****

Nominal value:	HK$[nominal price] per Share
Stock Code:	[Company's stock code]

B. Suggested Template: Extract of Formal Notice

Overall Coordinators
(in alphabetical order)
[Logo and Name of each of Overall Coordinators]
Joint Global Coordinators
(in alphabetical order)
[Logo and Name of each of Joint Global Coordinators]
Joint Sponsors
(in alphabetical order)
[Logo and Name of each of Joint Sponsors]
Joint Bookrunners
(in alphabetical order)
[Logo and Name of each of Joint Bookrunners]

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the shares of the Company (the "**Shares**"), comprising (a) the Hong Kong Public Offering of initially [number] Shares, and (b) the International Offering of initially [number] Shares.

Applications for the Offer Shares will only be considered on the basis of the terms and conditions set out in the Prospectus and related Application Forms.



[The Offer Price will be HK$[6.50] per Offer Share (subject to a reduction of up to 10%) through making a Downward Offer Price Adjustment as set out in the Prospectus. If the Offer Price is set after making a 10% Downward Offer Price Adjustment, the Offer Price will be HK$[5.85] per Hong Kong Offer Share. Applicants for the Hong Kong Offer Shares are required to pay, on application, the Offer Price of HK$[6.50] per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%.**]***

OR



[The Offer Price will not be more than HK$[8.45] per Offer Share and is currently expected to be not less than HK$[6.50] (subject to a reduction of up to 10% below the bottom end of the Offer Price range) through making a Downward Offer Price Adjustment as set out in the Prospectus. If the Offer Price is set after making a 10% Downward Offer Price Adjustment, the Offer Price will be HK$[5.85] per Offer Share. Applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$[8.45] per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%.**]***

If the Company decides to reduce the Offer Price by making a Downward Offer Price Adjustment (a reduction of up to 10% below the **[**indicative Offer Price**]* [**bottom end of the Offer Price range**]***), the Company will separately announce the final Offer Price no later than [date] on the website of the Stock Exchange at **www.hkexnews.hk** and the Company's website at [**Company's website**].

If the Offer Price as finally determined is less than **[**the indicative Offer Price of HK$[6.50]**]* [**the maximum indicative Offer Price of HK$[8.45]**]*** per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in the Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest of the cheque or bankers cashier order will not be cleared.

Applicants who wish the Hong Kong Offer Shares to be allotted in their own names should (i) complete and sign the **WHITE** Application Forms; or (ii) submit applications online through the designated website of the HK eIPO White Form Service Provider at **www.hkeipo.hk**. Applicants who wish to have the Hong Kong Offer Shares allotted in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to their CCASS Investor Participant stock accounts or the stock accounts of their designated CCASS Participants maintained in CCASS should either (i) complete and sign the **YELLOW** Application Forms; or (ii) give **electronic application instructions** to HKSCC via CCASS.

B. Suggested Template: Extract of Formal Notice

Irrespective of whether a Downward Offer Price Adjustment is made, the Company expects to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on [date] on the website of the Stock Exchange (**www.hkexnews.hk**) and on the Company's website (**[company's website]**). Results of allocations and the Hong Kong identity card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering will be available through a variety of channels from [date]. Dealing in the Shares on the Stock Exchange is expected to commence on [date]. The Shares will be traded in board lots of [number] Shares. The Company will not issue any receipts for sum paid on application or any temporary documents of title.

By order of the Board
[Company Name]
[Name of Chairman]
Chairman

Hong Kong, [date of formal notice]

As of the date of this announcement, the executive Directors are [names of the executive directors], the non-executive Directors are [names of the non-executive directors] and the independent non-executive Directors are [names of the independent non-executive directors].

1. Please refer to Prospectus for definition of "Downward Offer Price Adjustment".

C. Suggested Template: Price Reduction Announcement

*This announcement is for information purposes only and does not constitute an offer or an invitation by any person to acquire, purchase or subscribe for securities. Potential investors should read the prospectus dated [date of prospectus] (the "**Prospectus**") issued by [Company Name] (the "**Company**") for detailed information about the Company and the Global Offering before deciding whether or not to invest in the shares being offered.*

*Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited ("**HKSCC**") take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement is not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any state of the United States and the District of Columbia). This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities mentioned herein have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**"). The securities may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States.*

Unless defined herein, terms used in this announcement shall have the same meanings as those defined in the Prospectus.

[Company Logo]
[Company Name]
[公司名稱**]**
(Incorporated in [jurisdiction] with limited liability)
(Stock code : xxxxx)

Price Reduction Announcement

Reference is made to the prospectus of [Company Name] (the **"Company"**) dated [date] (the **"Prospectus"**). This announcement is supplemental to and should be read in conjunction with the Prospectus. Unless otherwise stated, terms used in this announcement shall have the same meanings as defined in the Prospectus.

The Company has made a Downward Offer Price Adjustment. Accordingly, the final Offer Price has been set at HK$[5.85] per Offer Share which is [10]% below **[**the indicative Offer Price**]*** **[**the bottom end of the Offer Price range**]***(exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%).

Based on the final Offer Price of HK$[5.85] per Offer Share, the related changes to the Global Offering are:

- the net proceeds from the Global Offering to be received by the Company, is reduced to be approximately HK$[•]. The Company intends to apply the decreased net proceeds for the purposes **[**applicant should provide details**]** as disclosed in the prospectus; and

- the market capitalisation of the Shares will be reduced to HK$[•].

Each Director confirms that, taking into account of the final Offer Price, there is no material change of circumstances after the issue of the Prospectus and there is sufficient working capital for our requirements for at least 12 months from the date of the Prospectus under Paragraph 36 of Appendix D1A to **[**Main Board**]*** **[**GEM**]*** Listing Rules.

By order of the Board
[Company Name]
[Name of Chairman]
Chairman

Hong Kong, [date of announcement]

As of the date of this announcement, the executive Directors are [names of the executive directors], the non-executive Directors are [names of the non-executive directors] and the independent non-executive Directors are [names of the independent non-executive directors].

***

* Delete as appropriate

4.15 PLACING-RELATED MATTERS

1. This chapter provides guidance on (i) the information required at the placing stage; (ii) adequate spread of placees; (iii) consent for placing to connected clients; (iv) consent and/or waiver for placing to existing shareholders or their close associates; (v) details of the consent and/or waiver applications; and (vi) Cornerstone Investors, as placing to the above parties may violate the fair and equal treatment requirement under MB Rule 2.03 (GEM Rule 2.06) and may give rise to actual or perceived preferential treatment by virtue of their relationships with the applicant and/or the connected distributors, which include the OC, other syndicate member and any other distributor who place securities of an applicant (collectively, "**Distributors**").

Information required at the Placing Stage

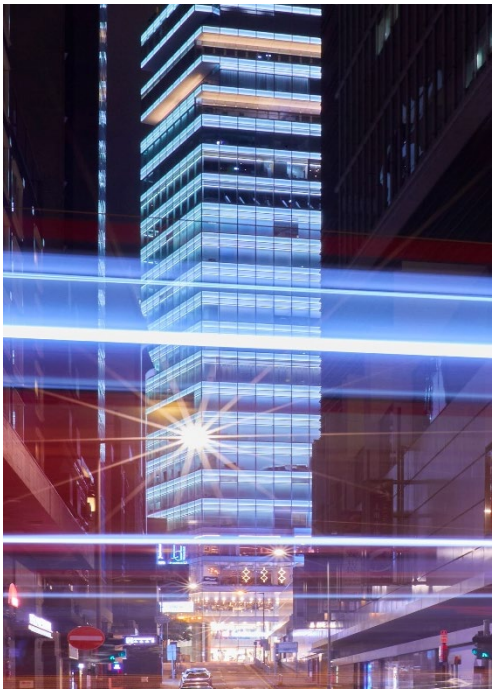
2. MB Appendix F1 (GEM Rule 10.12) sets out the guidelines for placing of equity securities. In addition to the required fields of the placee lists to be completed in FINI, additional information, where applicable, should be provided, as set out in the FAQs for this chapter. Any delay in the provision of the requisite information, or failure to address satisfactorily the enquiries by the timeline set by the Exchange may cause delay to the proposed listing timetable. In addition, should an application for consent be required for placing to connected clients, see paragraph 22 below for the additional documents required for different placee types.

Adequate Spread of Placees

3. The securities to be placed must have an adequate spread of holders pursuant to paragraph 4 of MB Appendix F1 (GEM Rule 10.12(1C)). The determination of whether an adequate spread of placees exists depends on the specific facts and circumstances. The intention of this requirement is to promote a public market for the securities with adequate liquidity and trading volume. In assessing the requirement for an "adequate spread" of placees, the Exchange may consider, among other things, (i) whether the securities to be placed are overly concentrated among a limited number of placees; and (ii) whether there are other circumstances that potentially indicate a lack of genuine demand for the securities[1].

[1] For example, based on the placees information submitted, concerns may be raised if there are facts or circumstances pointing to unusual relationships, agreements, arrangements or understandings (regarding the subscription or placing of the securities or otherwise) between or among one or more placees, and any of the applicant, its connected persons and their close associates, the sponsors or Distributors; or evidence indicating that these placees opened trading accounts with syndicate members shortly before the placing of securities and/or had no or minimal trading activity prior to the placing of securities.

Placing to Connected Clients



4. Each Distributor has the obligation to identify its connected clients and the OC should ensure that each Distributor has submitted placee list information as required under MB Rule 9.11(35)(b)[2] (GEM Rule 12.27(6)(b)) and, where necessary, the appropriate consent and/or waiver application to the Exchange.

5. Paragraph 1C(1) of MB Appendix F1 (GEM Rule 10.12(1AA)(a)) states that no allocations will be permitted to connected clients without prior consent of the Exchange. The Exchange will ordinarily give its consent for allocation to connected clients if it is satisfied that: (i) the allocation to a connected client represents genuine demand for securities of an applicant; and (ii) the connected client has not taken/ will not take advantage of its position to receive an allocation for its own benefit at the expense of other placees or the public (i.e. no actual or perceived preferential treatment has been given to such connected client).

6. The Exchange requires the following conditions ("**Connected Clients Conditions**") to be fulfilled, with confirmation from the relevant party as indicated, when consider granting a consent to placing to connected client holding such securities for independent third party on a non-discretionary basis[3] ("**Non-Discretionary Basis Conditions**") and a discretionary basis[4] ("**Discretionary Basis Conditions**"), respectively:

Connected Clients Conditions	Parties to provide confirmations/ information[5]	
	Connected clients holding on	
	non-discretionary basis	discretionary basis
(i) Securities are held on behalf of independent third parties[6], details of the allocation will be disclosed in	OC	

[2] See Companies A and B in **Annex A.19** for requirement of placee lists in respect of funds and dispensation with certain requirements in respect of public offering without listing in Japan.

[3] Refers to connected client acting on instructions from investor to hold such securities. 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. The risk of the asset manager leveraging its relationship with the connected Distributor to obtain actual or perceived preferential treatment is considered to be low.

[4] Refers to connected client that is authorised to make investment decisions for investors to hold such securities. A discretionary asset manager usually charges performance-based management fees which may incentivise it to use its relationship with the connected Distributor to receive allocations. This heightens risk of preferential treatment.

[5] Confirmations should be given to the Exchange, copying each sponsor and OC. See Appendix I to this chapter for the confirmation template.

[6] In relation to a connected client who is an individual, an "independent third party" refers to any party other than (i) the connected client itself; and (ii) a close associate of the connected client. In relation to a connected client which is a company or partnership, an "independent third party" refers to any party other than (i) the connected client itself; (ii) any fellow subsidiary of the connected client; (iii) parties which can exert significant influence on the connected client (e.g. the third party is a director of the connected client); and (iv) parties on which the connected client can exert significant influence (e.g. the connected client holds 20% or more shareholdings in the third party). As an illustration, for the purpose of the Exchange's review of the placees' independence under MB Appendix F1 (GEM Rule 10.12),

Connected Clients Conditions		Parties to provide confirmations/ information[5]	
		Connected clients holding on	
		non-discretionary basis	discretionary basis
	the listing document and/or the allotment results announcement[7].		
(ii)	Cornerstone investment agreement does not contain any material term which is more favourable to the connected client than those in other cornerstone investment agreements (if applicable).	Applicant	
(iii)	No preferential treatment has been, nor will be, given to the connected client by virtue of its relationship with the connected Distributor (other than the assured entitlement for the Cornerstone Investor (if applicable)).	• Applicant • Connected Distributor • OC • Connected client	
(iv)	Connected Distributor has not participated and will not participate in the decision-making process or relevant discussions relating to allocation of securities to the relevant connected client.	N/A	• Applicant • Connected Distributor • OC
(v)	Identities of ultimate beneficial owners of the securities, or where applicable, details of the structured products under which the subscription by the connected client was made.	OC	N/A
(vi)	Where the connected client is a collective investment scheme which is not authorised by the SFC or is holding the securities on behalf of such scheme, the background and details of such scheme.	OC	

7. For the avoidance of doubt, 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 MB Appendix F1 (GEM Rule 10.12) are followed (including submission of a list of all placees and the Marketing and Independence Statement via FINI).

8. The Exchange will not grant the consent if the allocation of securities to a connected client is for its proprietary account, unless under exceptional circumstances which will be considered on a case-by-case basis.

9. Where securities are allocated to independent third party but the asset manager of such independent third party is a member of the same group of companies as a Distributor, the Discretionary Basis Conditions should be met to address the actual or perceived preferential

where shares are placed to, for example, spouses of each of non-employee account executives, shareholders or directors of a Distributor involved in the placing, such relationship should be highlighted.

7 Details of the allocation include (i) 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; (ii) the basis for Cornerstone Investor/placee being regarded as a connected client under MB Appendix F1 (GEM Rule 10.12) and the name of the connected distributor; and (iii) lock-up arrangement, where applicable.

treatment given to such independent third party by virtue of the relationship between the asset manager and the connected Distributor.

10. Fulfilment of the Non-Discretionary Basis Conditions and the Discretionary Basis Conditions are not required if the securities are under-subscribed at the bottom of the offer price range. The sponsor is required to demonstrate to the Exchange that the price of the securities was determined by a genuine price discovery process when securities are taken up by any connected clients.

Placing to Existing Shareholders or their Close Associates

11. Paragraph 1C(2) of the MB Appendix F1 (GEM Rule 10.12(1AA)(b)) states that no allocations will be permitted to applicants' existing shareholders[8] or their close associates, unless the conditions set out in MB Rules 10.03 and 10.04 (GEM Rule 13.02(1)) are fulfilled, without consent. The Exchange expects an applicant and/or the relevant Distributor to obtain the aforementioned consent and waiver from strict compliance with MB Rules 10.03 and 10.04 (GEM Rule 13.02(1)) from the Exchange before allocating to any existing shareholders or their close associates.

12. The Exchange will presume that preferential treatment is given to existing shareholders (including a pre-IPO investor) or their close associates as they may have the ability to influence an applicant, depending on their interest and/or shareholder's rights[9] in the applicant, and the greater the existing shareholder's interest, the greater the risk that they may use their influence over the applicant to obtain actual or perceived preferential treatment in the allocation process. The Exchange will also presume that preferential treatment would be given to Cornerstone Investors and, due to their special status with the applicant, will not grant a consent and/or waiver unless a clear case can be demonstrated to the Exchange to dispel this presumption.

13. The Exchange will ordinarily agree to grant a consent and waiver for allocation to existing shareholders or their close associates if it is satisfied that the actual or perceived preferential treatment arising from their ability to influence the applicant during the allocation process can be addressed.

14. Subject to paragraphs 15, 16 and 18 below[10], the Exchange requires the following conditions ("**Existing Shareholders Conditions**") to be fulfilled, with confirmation from the relevant party indicated, when consider granting a consent and waiver from MB Rule 10.04 (GEM Rule 13.02(1)) to placing to existing shareholders or their close associates:

Existing Shareholders Conditions	Parties to provide confirmations[11]
(i) Cornerstone investment agreement does not contain any material term which is more favourable to the existing shareholder or its close associate than those in other	Applicant

[8] For the purpose of this section, holders of convertible instruments are regarded as "existing shareholders" and their percentage of voting right will be calculated as if their instruments were converted in full before the filing of the listing application to the Exchange.

[9] This may also include additional rights granted to selected shareholders, e.g. appointment of director before listing (as such rights cannot survive upon listing). In such case, the existing shareholder has a higher risk of receiving actual or perceived preferential treatment.

[10] For the avoidance of doubt, in circumstances described in paragraphs 15, 16 and 18, consents and waivers from the Exchange are still required in such circumstances but the Existing Shareholders Conditions are not required to be fulfilled.

[11] Confirmation should be given to the Exchange, copying each sponsor and OC. See Appendix II to this chapter for a confirmation template.

Existing Shareholders Conditions		Parties to provide confirmations[11]
	cornerstone investment agreements. (if applicable)	
(ii)	No preferential treatment is given to the existing shareholder or its close associates (other than the assured entitlement for a Cornerstone Investor (if applicable)).	• Applicant • OC • Sponsor
(iii)	Existing shareholder (a) has less than 5% voting rights in the applicant before the offering; (b) is not a core connected person or its close associate; (c) does not have the power to appoint directors or any other special rights. In addition, allocation to the existing shareholder or its close associates will not affect the applicant's ability to satisfy the public float requirement and details of the allocation will be disclosed in the listing document and/or the allotment results announcement[6].	Sponsor

15. Different conditions apply for (i) placing to existing shareholders in IPOs of Biotech Companies and Specialist Technology Companies and (ii) placing to the SPAC Promoters in the initial listing of a SPAC and/or financing of a De-SPAC Transaction and, for the avoidance of doubt, the size-based exemption in paragraph 18 below is not applicable to such transactions. See **Chapters 2.3**, **2.4** and **2.5** for the applicable conditions.

16. The Exchange will generally not presume that there is preferential treatment under the following circumstances, and fulfilment of the Existing Shareholders Conditions in paragraph 14 above is not required[12] for:

    (i) Offerings under-subscribed at the bottom of the offer price range. However, the sponsor is required to demonstrate to the Exchange that the price of the securities was determined by a genuine price discovery process when securities are taken up by any existing shareholders or their close associates;

    (ii) Existing shareholders purchasing securities pursuant to an anti-dilution provision[13]; and

    (iii) Allocation to close associates of existing shareholders who are PRC governmental bodies under MB 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 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[14]. The Exchange will look into the relationship between the close associates and the applicant, and assess whether to grant consent and waiver to them on a case-by-case basis.

17. For the avoidance of doubt, if securities are placed to existing shareholders or their close associates through connected clients, both (i) Discretionary Basis Conditions/ Non-

[12] For the avoidance of doubt, an applicant is still required to fulfil the public float requirement under MB Rule 8.08(1)/19A.13A (GEM Rule 11.23/25.07A) in such cases.

[13] Fulfilment of Discretionary Basis Conditions and Non-Discretionary Basis Conditions (see "Placing to Connected Clients" section above), where relevant, are also not required for existing shareholder subscribing or purchasing securities pursuant to an anti-dilution provision.

[14] Even if a waiver is granted, where the close associate of the existing shareholder which is a PRC governmental body is a core connected person of the applicant, its shareholding will not be counted towards the public float under MB Rule 8.24 (GEM Rule 11.23).

discretionary Basis Conditions; and (ii) Existing Shareholders Conditions have to be satisfied, unless it falls within those scenarios where the relevant condition is not required (see paragraphs 10, 16 and 18).

Size-based Exemption

18. The Exchange will grant consent and/or waiver to allow an existing shareholder and/or its close associates and a Cornerstone Investor to subscribe or purchase further securities in the IPO without fulfilment of the Existing Shareholders Conditions[15] subject to the disclosure of details of the allocation[16] in the listing document and/or the allotment results announcement, and the following:

    (i) The offer (excluding any over-allocation) has a total value of at least HK$1 billion;

    (ii) Securities allocated to all existing shareholders and their close associates (whether as Cornerstone Investors and/or as placees) as permitted under this exemption do not exceed 30% of the total number of securities offered [17]; and

    (iii) Each director, chief executive, controlling shareholder and, in the case of PRC issuers, supervisor of the applicant must have confirmed that no securities have been allocated to them or their respective close associates under this exemption.

    (together, the **"Size-based Exemption Conditions"**)

19. Where allocations will/may be made to core connected persons of an applicant pursuant to the Size-based Exemption Conditions, the Exchange will grant a related waiver from strict compliance with MB Rule 9.09(b) (GEM Rule 12.11) in respect of such allocations.

Applicants listed on another stock exchange

20. Notwithstanding paragraph 14(iii)(a) requiring an existing shareholder has less than 5% of an applicant's voting rights, the Exchange may grant consent and waiver for an existing shareholder that has 5% or more of an applicant's voting rights if the applicant is listed on another stock exchange and it can, on a case-by-case basis, be demonstrated that such existing shareholder is a genuine, independent and public investor[18].

Consent and/or Waiver Applications

21. Consent and/or waiver applications can be submitted by the relevant Distributor directly or through the OC, in each case, copying each sponsor and other OC. To avoid potential delay in the listing timetable, Distributors are encouraged to submit consent and/or waiver applications as early as possible and may submit advance consent and/or waiver application (see paragraph 22) for pre-vetting as soon as the PHIP is published, regardless of whether the relevant placee is ultimately placed with any securities upon the final allocation of an IPO.

22. Apart from the confirmations stated in paragraphs 8 and 16, the following information should also be included in the consent and/or waiver application:

[15] For the avoidance of doubt, an applicant is still required to fulfil the public float requirement under MB Rule 8.08(1) (GEM Rule 11.23) in such cases.

[16] See footnote 7.

[17] If an applicant wishes to allocate further securities to existing shareholders and/or their close associates after the 30% quota (see paragraph 18(ii)) has been fully used up, it may do so only if it falls under the circumstances under paragraph 16 or otherwise can demonstrate that such further allocations should be permitted having regard to the circumstances.

[18] Public investor refers to an independent investor who is not connected with an applicant within the meaning of the Listing Rules when the applicant has a listing elsewhere.

(i) The identities of the connected clients and the relationships between the Distributor and each of the connected clients (e.g. whether they are members of the same group of companies and/or are collective investment schemes managed by members of the same group of companies[19]);

(ii) Where the connected client is a collective investment scheme which is not authorised by the SFC or is expected to hold the securities on behalf of such scheme, the background and details of such scheme, such as (a) the types and values of assets under management; (b) whether the scheme is publicly marketed; (c) the scheme establishment date; (d) identities of the general partners and 20 largest limited partners[20] of the scheme where applicable; (e) the identity of the scheme administrator; and (f) the relationships among the scheme, the ultimate beneficial owners of the limited partners, the controlling shareholders of the applicant, and the applicant;

(iii) Where the connected client subscribes for securities on a non-discretionary basis on behalf of specific independent third parties in the client accounts, the identities of the ultimate beneficial owners of the securities or, where applicable, details of the structured products under which the subscription by the connected client was made (e.g. OTC total return swaps); and

(iv) The basis of seeking the consent and/or waiver, which follows the principles and requirements under paragraphs 5, 6, 13 and 14, and the maximum amount of securities expected to be allocated to the connected client.

Advance Consent and/or Waiver Application

23. To avoid delay in the listing timetable, a Distributor which intends to place securities of an applicant to its connected client is encouraged to submit advance consent and/or waiver application to the Exchange. The advance consent and/or application is similar to an ordinary application, except that certain information (e.g. number of securities allocated to the connected client) and confirmations from relevant parties (e.g. OC) which, by its nature, is available only at a later stage ("**Outstanding Information**") may be omitted.

24. The Exchange will issue a notification to the OC and/or the connected Distributor which may set out conditions as part of the consent ("**Notification**") after reviewing the advance consent application. The applicant and its OC will not be required to submit another consent application with respect to such connected client upon confirming the allocation of securities. In order for the Exchange to grant the consent and/or waiver, the connected Distributor, the applicant, the sponsor, the OC and the connected client (where applicable) should, as soon as possible, to avoid potential delay in the listing timetable:

(i) Provide the Outstanding Information to the Exchange (see Appendices I and II to this chapter for the confirmation templates);

[19] The Exchange normally regards "members of the same group" as including, without limitation, any company that the Distributor's holding companies have an interest of 20% or more, and any other companies over which the Distributor and/or its subsidiaries, holding companies or fellow subsidiaries could individually or together directly or indirectly exert influence, e.g. by board representation.

[20] For the purpose of determining the 20 largest limited partners, interests of partners who are associates of each other should be combined. For a collective investment scheme with more than 20 limited partners, none of which holds 30% or more interest in the scheme, the identities of the limited partners of the scheme are normally not required. Instead, the connected client is required to confirm that the scheme is widely held with no single limited partner (together with its associates) holding 30% or more interest, and confirm that the limited partners are independent of the applicant, its controlling shareholders and the connected Distributor.

(ii) Confirm to the Exchange that the information provided in the advance application remains valid; and

(iii) Satisfy all conditions set out in the Notification.

25. Where there is any material change to the information submitted in the advance application, the new information must be timely submitted to the Exchange for its consideration.

26. For the avoidance of doubt, the allocation of securities to connected clients should be conducted only after the close of the public offer and consent has been granted by the Exchange. For a connected Distributor that has not submitted an advance consent application but intends to place securities to its connected client, a consent application should be made as soon as possible when all information is available to ensure sufficient time for the Exchange's review to avoid any delay to the listing timetable.

Cornerstone Investors

27. It is not uncommon that a portion of the IPO shares under the placing tranche are preferentially allocated to certain investors, commonly referred as "Cornerstone Investors"[21] who are usually introduced to an IPO to signify that these investors have confidence in the applicant, and the investment is worthwhile such that they are willing to commit to take up securities at the IPO price at an early stage. As the Cornerstone Investors are guaranteed to receive allocation of securities irrespective of the final offer price, these are regarded as preferential placings.

28. Preferential placings to the Cornerstone Investors will not violate the fair and equal treatment requirement if the following principles are followed:

(i) The placing must be at the IPO price and the Cornerstone Investor must fully pay for its securities before dealings in the applicant's securities on the Exchange commence;

(ii) The IPO securities placed are subject to a lock-up period generally for at least six months following the listing date;

(iii) Each investor will not have any board representation in the applicant, and is independent of the applicant, its connected persons and their respective associates;

(iv) Details of the placing arrangement, including the identity and background of the investors, are disclosed in the prospectus; and

(v) Notwithstanding the minimum six-month lock-up period, the securities will be part of the public float under MB Rule 8.08 (GEM Rule 11.23) provided the investor is a member of the public for the purpose of MB Rule 8.24 (Notes 2 and 3 to GEM Rule 11.23).

29. Because the existence of Cornerstone Investors is sometimes critical to the success of an IPO, especially when market sentiment is weak, some applicants and their controlling shareholders, sponsors or other syndicate members may be willing to offer additional benefits (other than a guaranteed allocation at IPO price) to the Cornerstone Investors. However, this would violate the principle of fair and equal treatment requirement.

30. As such, no direct or indirect benefits by side letter or otherwise, other than a guaranteed allocation of securities at the IPO price, can be given to a Cornerstone Investor to participate

[21] A Cornerstone Investor cannot subscribe or purchase further securities as a placee in an IPO unless the size-based exemption is granted (see paragraph 18) or otherwise under exceptional circumstances which will be considered on a case-by-case basis.

in the placing tranche of an applicant's share offering (e.g. waiver of brokerage commission, a put option from the controlling shareholder or any other person to buy back the securities after listing, sharing of underwriting commissions, an assurance that the applicant will re-invest the IPO proceeds in funds managed by the Cornerstone Investor, an agreement to allow allocation of securities in another IPO, or any other transaction or arrangement entered into on non-arm's length commercial terms in connection with the acquisition of the securities), regardless of whether the benefits are granted by the applicant, its controlling shareholder, sponsors or other syndicate members.

31. If an investor receives any direct or indirect benefit, other than the guaranteed allocation of securities at IPO price, such investor should be classified as a pre-IPO investor and the requirements in **Chapter 4.2** would apply.

32. Arm's length commercial arrangements between applicants and investors, such as when the investors are major customers and suppliers, or formation of joint ventures for business development with such investors, are not considered as indirect benefits, and this Guide does not intend to preclude the entering into of arm's length commercial arrangements between them. These arrangements are generally considered as strategic dealings and/or arrangements with strategic investors. Details of any such commercial arrangements should be fully disclosed in the prospectus.

33. **Annex B.8** sets out the FAQs for this chapter.

Appendix I – Confirmation template for consent application for placing to a connected client

OC's confirmation

We hereby confirm to the Exchange that the securities are held on behalf of independent third parties and:

[Applicable if a connected client participates as a non-Cornerstone Investor placee]

(i) To the best of our knowledge and belief, we have no reason to believe that the connected client received any preferential treatment in the allocation of securities in the IPO as a placee by virtue of its relationship with the connected Distributor, and details of the allocation will be disclosed in the allotment results announcement;

OR

[Applicable if a connected client participates as a Cornerstone Investor]

(ii) To the best of our knowledge and belief, we have no reason to believe that the connected client received any preferential treatment in the allocation of securities in the IPO as a Cornerstone Investor by virtue of its relationship with the connected Distributor other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in Chapter 4.15 of the Guide for New Listing Applicant published by the Exchange (the "**Guide**"), and details of the allocation will be disclosed in the prospectus and the allotment results announcement; [and]

[Applicable if a connected client is holding securities on behalf of independent third parties on a discretionary basis, whether as a Cornerstone Investor or not]

(iii) The connected Distributor has not participated, and will not participate, in the decision-making process or relevant discussions among the applicant, the overall coordinator(s) and the underwriter(s) as to whether securities should be allocated to the connected client.

Applicant's confirmation

We hereby confirm to the Exchange that:

[Applicable if a connected client participates as a non-Cornerstone Investor placee]

(i) No preferential treatment has been, nor will be, given to the connected client in any allocation in the placing tranche;

OR

[Applicable if a connected client participates as a Cornerstone Investor]

(ii) The cornerstone investment agreement with the connected client does not contain any material terms which are more favourable to the connected client than those in other cornerstone investment agreements and no preferential treatment has been, nor will be, given to the connected client other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in Chapter 4.15 of the Guide;

AND

[Applicable if a connected client is holding securities on behalf of independent third parties on a discretionary basis, whether as a Cornerstone Investor or not]

(iii) The connected Distributor has not participated, and will not participate, in the decision-making process or relevant discussions among the applicant, the overall coordinator(s) and the underwriter(s) as to whether securities will be allocated to the connected client.

Connected Client's confirmation

We hereby confirm to the Exchange that:

[Applicable if a connected client participates as a non-Cornerstone Investor placee]

(i) To the best of our knowledge and belief, we have not received and will not receive any preferential treatment in the IPO allocation as a placee by virtue of our relationship with the connected Distributor;

OR

[Applicable if a connected client participates as a Cornerstone Investor]

(ii) To the best of our knowledge and belief, we have not received and will not receive any preferential treatment in the IPO allocation as a Cornerstone Investor by virtue of our relationship with the connected Distributor, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in Chapter 4.15 of the Guide.

Connected Distributor's confirmation

We hereby confirm to the Exchange that:

[Applicable if a connected client participates as a non-Cornerstone Investor placee]

(i) No preferential treatment has been, nor will be, given to the connected client in any allocation in the placing tranche; [and]

OR

[Applicable if a connected client participates as a Cornerstone Investor]

(ii) No preferential treatment has been, nor will be, given to the connected client other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in Chapter 4.15 of the Guide; [and]

[Applicable if a connected client is holding securities on behalf of independent third parties on a discretionary basis, whether as a Cornerstone Investor or not]

(iii) We have not participated, and will not participate, in the decision- making process or relevant discussion among the applicant, the overall coordinators and the underwriters as to whether securities should be allocated to the connected client.

Appendix II – Confirmation template for consent and waiver application for placing to existing shareholders or its close associates

OC's confirmation

[Applicable if the existing shareholder or its close associates participates as a non-Cornerstone Investor placee]

(i) We hereby confirm to the Exchange 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.

Applicant's confirmation

We hereby confirm to the Exchange that:

[Applicable if the existing shareholder or its close associates participates as a Cornerstone Investor]

(i) 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 Chapter 4.15 of the Guide, 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;

OR

[Applicable if the existing shareholder or its close associates participates as a non-Cornerstone Investor placee]

(ii) 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.

Sponsor's confirmation

We hereby confirm to the Exchange that:

(i) The existing shareholder has less than 5% voting rights in the applicant before the offering;

(ii) The existing shareholder is not a core connected person or its close associate;

(iii) The existing shareholder does not have the power to appoint directors or any other special rights;

(iv) Allocation to existing shareholder or its close associates will not affect the applicant's ability to satisfy the public float requirement;

[Applicable if the existing shareholder or its close associate as a non-Cornerstone Investor placee]

(v) 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 as a placee by virtue of their relationship with the applicant, and details of the allocation will be disclosed in the prospectus and/or the allotment results announcement;

OR

[Applicable if the existing shareholder or its close associate as a Cornerstone Investor]

(vi) It has no reason to believe that the existing shareholder or its close associates received any preferential treatment in the IPO allocation as a Cornerstone Investor 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 Chapter 4.15 of the Guide, and details of the allocation will be disclosed in the prospectus and/or the allotment results announcement.

Appendix III – Summary of confirmations to be provided to the Exchange

	Party to Provide the Confirmation	Non-discretionary Basis Conditions	Discretionary Basis Conditions	Existing Shareholders Conditions
1.	Securities are held on behalf of independent third parties			
	- OC	✓	✓	-
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 Distributor	✓	✓	-
	- OC	✓	✓	✓
	- connected client	✓	✓	-
	- sponsor	-	-	✓
4.	Connected Distributor not participating in decision-making process/ discussion relating to connected client			
	- applicant	-	✓	-
	- connected Distributor	-	✓	-
	- OC	-	✓	-
5.	Identities of the ultimate beneficial owners of the securities or where applicable, details of the structured products under which the subscription by the connected client was made			
	- OC	✓	-	-
6.	Where the connected client is a collective investment scheme which is not authorised by the SFC or is holding the securities on behalf of the scheme, the background and details of the scheme.			
	- OC	✓	✓	-
7.	Existing shareholder (a) has less than 5% of voting rights in the applicant before the offering; (b) is not a core connected person or its close associate; (c) does not have the power to appoint directors or any other special rights; and (d) allocation to the existing shareholder or its close associates will not affect the listing applicant's ability to satisfy the public float requirement.			
	- sponsor	-	-	✓



5 Other Listing Structures

5.1 HONG KONG DEPOSITARY RECEIPTS

1. This chapter sets out guidance on Hong Kong depositary receipts ("**HDRs**"), and explains the Exchange's rationale and regulatory basis for allowing pre-release and pre-cancellation of HDRs.

HDR Regime

2. In general, depositary receipts ("**DRs**") are securities issued by a depositary[1] to represent underlying shares of an overseas issuer. DRs are issued to investors in the target market (host market) where they are traded, cleared and settled in the currency of the host market in accordance with host market procedures. The DR issuer determines the DR ratio, which is the number of underlying shares (or a fraction of a share) represented by one DR.

3. The DR programme listed on the Exchange is referred to as HDR. The HDR framework applies to the Main Board only[2] and facilitates listing in the form of HDRs which are simply a convenient "wrapper" around the shares in the issuers. HDRs must be issued with the issuer's authorisation (i.e. all HDR programmes must be "sponsored"). Issuers incorporated in any jurisdiction, whether listed on any exchange or not[3], can apply to list as HDRs on the Exchange, provided that they can meet the relevant MB Rules and comply with their local regulatory regime[4].

4. The listing requirements and procedures for HDR issuers are essentially the same as for issuers of shares (see MB Chapter 8 and MB Chapter 9)[5]. HDR issuers must comply with additional requirements set out in MB Chapter 19B concerning the contents of the deposit agreement and other HDR-specific matters. HDR issuers must also comply with the same rules on admission, continuing obligations, etc. as issuers of shares. As such, the interests of existing market users are not affected.

Rights of HDR holders[6]

5. The rights and obligations of the HDR holders, the depositary and the HDR issuers are set out in the deposit agreement, which is subject to approval by the Exchange in accordance with MB Chapter 19B. Given that the rights of the HDR holder arise from the deposit agreement which is a contractual document, and the rights of the shareholder are reinforced by the issuer's domestic statutes, the rights of a shareholder and a HDR holder are not identical[7].

1 The depositary is appointed and authorised by the DR issuer to issue or cancel DRs and acts as the agent of the DR issuer and as a bridge between the DR holders and the DR issuer.
2 The HDR framework has been effective since 1 July 2008. See MB Chapter 19B and MB Appendices D1E and D1F.
3 A share issuer on the Exchange wishing to list in HDR form must apply to delist as a share issuer and re-apply to list as an HDR issuer. This process will require the share issuer to comply with its own constitutional requirements and all relevant rules and regulations, including the consent of its existing shareholders (where applicable).
4 The HDR framework only applies to HDR programmes listed in Hong Kong. It does not apply to existing or future depositary receipt programmes in overseas markets. Any existing or future depositary programmes, including global depositary receipt or American depositary receipt, must comply with the relevant MB Rules in order to be listed on the Exchange.
5 HDR issuers have to demonstrate compliance with all shareholder protection provisions that apply to issuers of shares as set out in MB Appendix A1, **Chapter 2.1** of this Guide, SFO, C(WUMP)O and the Codes, to be eligible to list on the Exchange.
6 The definition of "holder of depositary receipts" includes a holder evidenced by a book entry in the HDR register.
7 HDR holders who want to enforce their rights as shareholders may, subject to the regulations of the HDR issuer's place of incorporation, choose to convert their HDRs into shares of the underlying company.

6. In general, the rights of an HDR holder will be equivalent to those of a shareholder. The rights of the HDR holders are generally exercised on their behalf by the depositary. In respect of voting in shareholders' meetings, as with other corporate communications, the depositary (on behalf of the HDR issuer) will pass information from the HDR issuer on resolutions and voting procedures to the HDR holders, and will in turn pass the HDR holders' voting instructions back to the HDR issuer. However, as HDR holders are not shareholders, they are not permitted to attend shareholders' meetings in the capacity of shareholders[8].

Benefits of HDRs to overseas issuers and investors

7. HDRs may help resolve certain regulatory and operational challenges associated with listing ordinary shares in Hong Kong. As HDRs are by nature fungible with the shares they represent, the Exchange believes that HDRs may provide liquidity advantages for global trading of securities.

8. For issuers and investors, listing HDRs may provide the following advantages:

Only practical method for overseas issuers to list overseas	(i) For overseas issuers, HDRs may be the only practical method for overseas issuers to list in Hong Kong if there are regulations or policies in their domestic[9] jurisdictions that: (a) Prevent or discourage them from listing overseas in the form of ordinary shares; (b) Prevent the holding of ordinary shares overseas; (c) Prohibit the establishment of a branch register overseas, or splitting of the share register; or (d) Require overseas direct holders of the issuer's shares to be licensed as overseas investors.
Convenient means to "resize" the issue	(i) The HDR mechanism enables the issuer to fit different price ranges by selecting an appropriate HDR ratio for each market. Where the issuer's shares are of a very different size or price per board lot from that customarily used in Hong Kong, the HDR form may provide a convenient means to "resize" the issue[10].
Less onerous procedures for investors allowing HDR issuers to capture larger investor base	(i) HDRs are traded in Hong Kong in Hong Kong dollars (or US dollars if the HDR issuer so chooses) and in accordance with the trading, settlement and custody procedures of the Hong Kong market. This provides convenience for Hong Kong investors as they may not need to comply with onerous overseas procedures such as registration procedures, tax administration and currency conversion.

[8] According to paragraph 19 of MB Appendix A1, the HDR issuer must ensure that its constitutional documents provide the right of HKSCC to appoint proxies or corporate representatives to attend meetings and the rights of such proxies or corporate representatives must enjoy rights equivalent to the rights of other shareholders.

[9] "Domestic" in this chapter refers to the principal market of the issuer's underlying shares.

[10] The HDR ratio, as determined by the HDR issuer, should be disclosed in the listing document. Any change in the HDR ratio is subject to an announcement by the HDR issuer and/or approval by HDR holders under the MB Rules.

		(ii) The depositary may receive dividends from the HDR issuer in the original currency, and convert into Hong Kong dollars (or US dollars) at the appropriate market rate and remit, net of applicable taxes and depositary fees, to the investors[11]. (iii) With the above onerous procedures handled by the depositary, HDRs may allow HDR issuers to reach a larger investor base, such as overseas retail investors and smaller institutions.
Reduced transfer time between ordinary shares in one market and HDRs in Hong Kong		(i) With the operation of pre-release (see below), the time required for the transfer of ordinary shares from one market to Hong Kong (in the form of HDRs) (or vice versa) can be greatly reduced, making investors less exposed to price discrepancies and currency fluctuations and increasing the liquidity of the HDRs. (ii) These operational advantages may be relevant to companies seeking a dual-listing in Hong Kong (both primary and secondary issuers) even if the issuer's domestic regulations do not present an obstacle to listing ordinary shares in Hong Kong.
Reduced potential legal risks		(i) HDRs reduce any potential legal risks as the applicant can issue dematerialised shares in their domestic market and then list HDRs on those shares in Hong Kong.
Saving in listing fees		(i) An HDR issuer may decide the amount of HDRs in respect of which listing is sought to reflect actual trading needs[12]. The flexibility allows a saving in listing fees (initial and annual listing fees) compared to a share issuer which must apply for listing all the shares in that class.
Facilitated communication		(i) Communications between the HDR issuer and investors are facilitated by the depositary in the investor's language (see paragraph 6 above).

Pre-Release and Pre-Cancellation

9. Pre-release and pre-cancellation are a means of bridging settlement timing differences and facilitating other transactions. They are established features of DR markets overseas. Pre-release can improve the price formation process and help improve liquidity.

What are pre-release and pre-cancellation?

10. HDRs are created by the depositary against delivery to the depositary's custodian of the HDR issuer's underlying shares in its domestic market. The following table sets out the details of the pre-release and pre-cancellation of HDRs:

[11] Where the investor holds the HDRs in CCASS, the dividend will be credited to his CCASS account (in respect of an investor participant) or the CCASS account of his broker or custodian, net of CCASS's dividend collection fee in accordance with the existing CCASS tariff.

[12] See MB Rule 19B.07 and FAQ 4 under **Annex B.9**.

Pre-release	Pre-cancellation
(i) The early creation and release of HDRs by the depositary before it has taken delivery of the underlying shares.	(i) The exact opposite transaction of pre-release, i.e. early cancellation of HDRs by the depositary and release of the underlying shares before the HDRs have been submitted to the depositary.
(ii) Enables the parties concerned to bridge the time gap between the need to settle HDRs and the availability of the HDR issuer's shares for delivery to the custodian in the HDR issuer's domestic market. A time gap may arise because of the logistics of communication between the depositary, the broker and the custodian, or differences in the settlement cycles between Hong Kong and the HDR issuer's domestic market.	(ii) In this case, the broker has bought HDRs and sold the underlying shares in the HDR issuer's domestic market. If the shares in the HDR issuer's domestic market are required to be settled before the HDRs are available for cancellation, the broker may request pre-cancellation of the HDRs and consequent release of the shares in the domestic market. This will facilitate timely settlement in the HDR issuer's domestic market.
(iii) In the primary domestic market, pre-release supports the arrangement of an over-allotment option which enables the HDR issuer to issue more HDRs for price stabilisation purposes; in the secondary market, pre-release accommodates differences in settlement cycles between markets.	

11. The Exchange allows pre-release and pre-cancellation under the current HDR regime although these practices are not specifically mentioned in the MB Rules.

12. MB Rule 19B.06 states that, "Depositary receipts may be issued in respect of newly issued shares and/or *in respect of shares placed with a depositary*…" (*emphasis added*). MB Rule 19B.16(b) states that the deposit agreement must provide for, "the status of the depositary receipts as instruments representing ownership interests in *shares of an issuer that have been deposited with the depositary*" (*emphasis added*).

13. The Exchange's interpretation is that these rules do not imply that there must have been a physical act of placing shares with the depositary in respect of each and every HDR issued. The words "*have been* deposited" is not intended to bar pre-release or pre-cancellation of HDRs.

Operation of Pre-release

Enabling provisions in the deposit agreement

14. The deposit agreement must take into account pre-release if this is intended, and the provisions should at least set out the broad parameters. The deposit agreement will often set the upper limit for the number of HDRs and shares involved in pre-release at any one time, e.g. 20% to 30% of the issued HDRs (not including those HDRs for which shares have not been received).

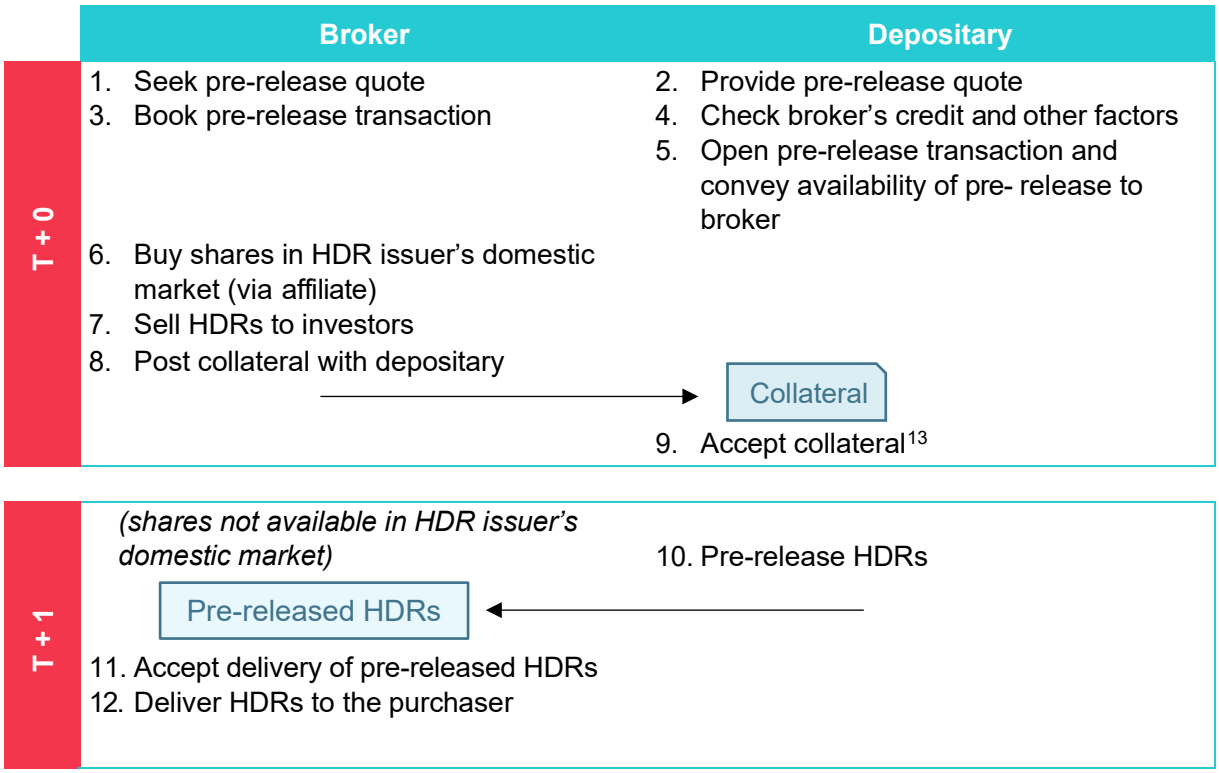
Pre-release agreement

15. In order to manage the risk of pre-release, a pre-release agreement signed between each counterparty broker and the depositary will set out the rights and responsibilities of the parties concerned. In particular, the broker will commit that it is presently entitled to the shares and will subsequently deliver the shares to the depositary. The depositary then opens a pre-release account for the broker, and records the broker's pre-release transactions in that account. Additionally, the depositary will often provide a credit facility to cover any related market exposure versus the collateral levels.

16. In a pre-release transaction, HDRs are pre-released (i.e. delivered) to the broker upon receipt of the broker's collateral, which is normally in cash. The depositary holds cash collateral equal to the value of the position, and may charge a number of basis points as interest on the value of the HDRs. If a dividend is paid during the pre-release period, the depositary will make the necessary claims and payments to the brokers. The depositary must obtain collateral and continuously monitor the exposure, with margin calls if necessary.

17. Brokers will "book'" a pre-release before engaging in the trade to ensure that they can settle the trade as needed. First, the broker will contact the depositary for a pre-release quote. The depositary will check the broker's credit standing and the availability of shares for a "spot" transaction. The depositary will have an automated system that monitors and calculates the various parameters. If the terms quoted are acceptable, the broker will book the pre-release. The broker will then execute the pre-release on the settlement date or the day prior to settlement to ensure that the shares are in place in time for settlement.

18. The following table sets out the anticipated process flow for pre-release:



[13] Late delivery of the collateral (underlying shares) (i.e. before T+3) to replenish the pre-released HDRs will invoke consequences under the General Rules of HKSCC. See, for example, Chapter 35 (Latest Delivery of Securities – CNS System) and Chapter 36 (Risk Management Measures – CNS System) of the General Rules of HKSCC.

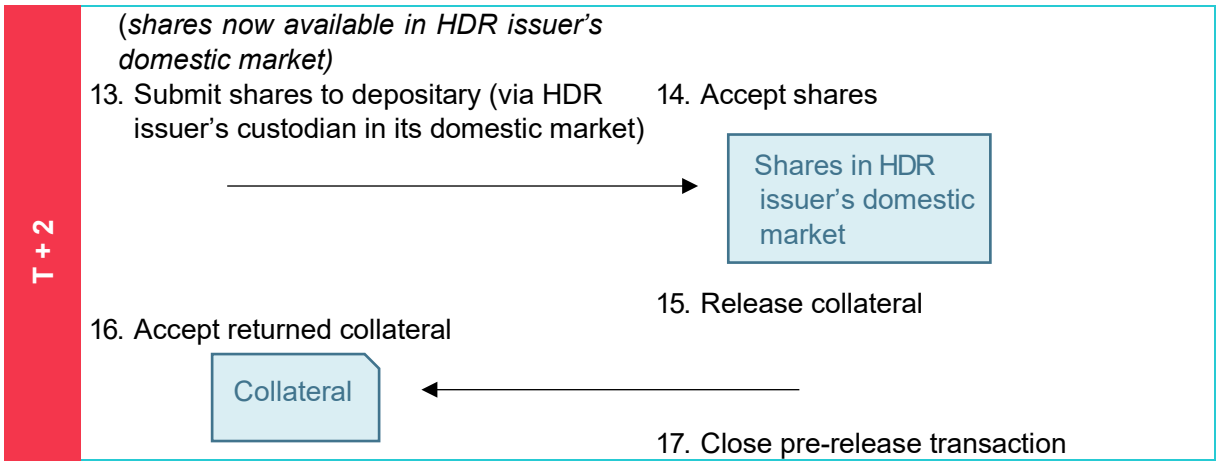


Figure 1

Safeguards for pre-release transactions

19. To ensure an orderly market for the trading of HDRs, the Exchange expects the depositary to ensure that every pre-release transaction it carries out contains the following safeguards:

Open market	There is an open market for the underlying shares.
Free from encumbrances	The underlying shares can be freely deposited with the depositary, i.e. they should be free from encumbrances.
Fixed settlement schedule	There is a fixed settlement schedule in the market where the underlying shares trade.
Measures for conflicts of interests where depositary and broker are in same group of companies	Where the depositary and the broker belong to the same group of companies, the depositary must ensure that there are measures to deal with conflicts of interest between the depositary and the related broker such that it is subject to equally stringent requirements imposed by the depositary on an independent broker.
Broker must first acquire underlying shares	The depositary must ensure that the pre-release agreement contains a provision to require the broker to have first acquired the underlying shares or have entered into an enforceable agreement to enable it to acquire the underlying shares at a future date before it accepts delivery of pre-released HDRs issued by the depositary for further disposition.
Right to buy-in	The custodian/depositary has the right to buy-in the underlying shares or HDRs from the market if the shares are not delivered on the settlement/due date.
Collateral	The depositary or its custodian is provided with sufficient collateral by the broker.
Segregated account for collateral	The depositary must keep the collateral in a segregated account pending the settlement of the underlying shares to close out the pre-released HDR accounts.

20. Where the depositary does not use reasonable endeavors to put in place the above safeguards, the Exchange may consider that the depositary has not properly performed its depositary role and where appropriate, may review the depositary's eligibility to continue to act as a depositary under the MB Rules.

Impact of Pre-release on Short Selling and Disclosure of Interests under SFO

21. In a typical pre-release transaction, the depositary issues HDRs against the broker's commitment (backed by collateral) that the broker is presently entitled to the shares and will subsequently deliver the shares to the depositary.

22. Under the SFO, a broker conveying a sale of securities must have a presently exercisable and unconditional right to vest the securities, or believes and has reasonable grounds to believe that he has such a right when he sells the securities. Where these conditions are not satisfied, this will constitute a short sale[14] which is prohibited under the SFO. Any persons conveying a "short selling order" must therefore ensure compliance with the requirements in sections 171 and 172 of the SFO and in the Eleventh Schedule to the Trading Rules[15].

23. Any persons involved in a pre-release transaction need to consider compliance with the disclosure of interests requirements in Part XV of the SFO.

24. **Annex B.9** sets out the FAQs for this chapter.

[14] Generally, a short sale is the sale of securities at or through the Exchange that the seller does not own. To cover settlement the seller borrows the securities, and subsequently buys the securities in the market and at that time returns the loaned securities to the lender.
Section 170(1) of the SFO prohibits "naked" or "uncovered" short selling, i.e. a sale of securities where the seller *does not have* a presently exercisable and unconditional right to vest the securities in the purchaser of them or he believes and has reasonable grounds to believe that he has such right.

[15] Such short selling order is a "covered" short sale and is not prohibited under section 170(1) of the SFO. A "short selling order" is defined in Schedule 1 of the SFO as an order to sell securities where the seller's presently exercisable and unconditional right to vest the securities in the purchaser of them by virtue of (a) the seller having borrowed the securities before the sale of them or (b) the seller having title to other securities which are convertible or exchangeable into the securities being sold.
Sections 171 and 172 of the SFO set out requirements to ensure that a "short selling order" executed at or through the Exchange is properly reported and backed up by an adequate amount of securities at the time of the sale.
The Eleventh Schedule of the Trading Rules sets out how a "covered" short sale may be effected. One requirement is that a covered short sale may only be effected in designated securities which are posted on the Exchange's website from time to time.
SFC published a Guidance Note for Short Selling Reporting and Stock Lending Record Keeping Requirements.
This Guidance Note sets out, among other things, the circumstances where SFC will not consider the short selling rules have been breached; the exemptions available; the reporting requirements for covered short selling and the stock lending record keeping requirements.

5.2 AUTHORISED COLLECTIVE INVESTMENT SCHEMES

1. This chapter provides guidance on authorised collective investment schemes ("**CIS**") under MB Chapter 20.

2. SFC is the primary regulator for CIS including (i) authorisation of CIS and their offering documents in accordance with the applicable laws and regulations; and (ii) monitoring compliance with these authorisation conditions and applicable requirements.

3. The Exchange's primary role in CIS regulation is to maintain a fair, orderly and efficient market in the trading of CIS in accordance with the Listing Rules and the applicable trading rules of the Exchange.

Appointment of Listing Agent and Other Intermediaries

4. The listing agent must demonstrate that it has relevant experience handling a CIS listing application. The CIS Operator, or other qualified persons (e.g. legal advisers, financial advisers or persons with appropriate licences under the SFO) with the relevant experience who are authorised by the CIS Operator to handle the authorisation and listing process are normally acceptable to the Exchange to act as a listing agent.

5. Where the CIS applicant conducts an IPO of its CIS interests, or in other circumstances as the Exchange or the SFC may otherwise determine, the Exchange will require a listing agent to have all the necessary licences and qualifications to oversee the management of the listing process as required under MB Rule 20.06(2)(a) to (e).

6. According to the Code on Real Estate Investment Trusts, the listing agent for a new REIT applicant is in effect assuming the responsibilities of, and discharging a function no different from, the sponsor of an IPO. Accordingly, where the CIS applicant is a REIT or where the Exchange or the SFC may otherwise requires, the listing agent must have the requisite licences and qualifications to act as a sponsor.

7. Under MB Rule 20.23A, in the case of offerings involving bookbuilding activities (as defined under the Code of Conduct) of interests in a REIT by a new REIT applicant or an existing authorised REIT, MB Chapter 3A and other Listing Rules provisions relating to sponsor-OC, OC and other capital market intermediaries shall apply. A CIS applicant involved in such an offering must therefore appoint at least one sponsor-OC in compliance with MB Rule 3A.43, and where a CIS applicant appoints any other OC or capital market intermediary, the relevant requirements under MB Chapter 3A shall also apply.

Early Consultation with HKSCC for Applications Involving Foreign Elements

8. CIS applicants who are applying to list CIS interests in the form of (i) an entity incorporated outside of Hong Kong; or (ii) a trust organised under any law other than Hong Kong law, or other contractual form, the terms and conditions of which are governed by any law other than Hong Kong law, are encouraged to consult HKSCC in advance. The process for review by HKSCC will take time depending on the complexity of the issues raised. The consultation should be addressed to: Manager, Stock Admission, 30/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong, and with a copy to Co-Heads of IPO Vetting, 12th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

9. The CIS applicants should satisfy HKSCC that:

   (i) The laws of the relevant jurisdiction to which such securities/interests/instruments are subject to (which govern the creation of such securities/interests/instruments) recognise the concept of beneficial ownership under the existing custody structure operated by HKSCC and the transfer of such beneficial interests as envisaged under the CCASS Rules such that CCASS clearing participants transacting in and custodying such securities/interests/instruments on behalf of their clients are able to acquire proprietary interests in such securities/interests/instruments;

   (ii) All perfection requirements in the relevant jurisdictions (if any) can be complied with by CCASS clearing participants as the CCASS Rules envisage that clearing participants may provide such securities/interests/instruments as collateral for their exchange transactions in satisfaction of their margin requirements;

   (iii) There are no other legal or regulatory implications arising from the clearing and custody of such securities/interests/instruments by or on behalf of HKSCC which may have an impact on the performance of HKSCC's role as a central clearing counterparty and central securities depository in accordance with the CCASS Rules; and

   (iv) There are no other issues which may have a legal or regulatory impact on The Stock Exchange of Hong Kong Limited as a legal entity.

10. The Exchange expects CIS applicants to provide a formal legal opinion addressed to, and which may be relied upon by, HKSCC which addresses the issues set out in paragraphs 9(i) and (ii) above.

Publication of AP and PHIP

11. Where a CIS applicant's listing agent is required to discharge functions equivalent to those of a sponsor, the applicant is required to publish an AP and a PHIP in accordance with MB Rules 20.25 and 20.26, respectively.

Application Process

12. Following acceptance of a new listing application, the Exchange will issue a letter to notify the CIS applicant of the stock code allocation arrangements. The drawing of the stock code can take place prior to the issue of the approval-in-principle letter ("**AIP**") and a confirmation of the stock code will be issued when the Exchange issues the AIP. An AIP should be issued within five clear business days if all documentation is in order and there are no material comments.

13. Where there is an IPO and the CIS applicant and its listing agent outsource the process of reviewing the application forms for the subscription of CIS interests to a third party service provider (e.g. a share registrar), the CIS applicant and its listing agent must discuss with the service provider the reasonable steps to identify and reject multiple or suspected multiple applications. Outsourcing to a third party service provider would not release the CIS applicant or the listing agent from their responsibilities to identify and reject multiple or suspected multiple applications.

Documentary and Administrative Requirements

14. The documentary and administrative requirements are set out in MB Rules 20.14, 20.15, 20.17, 20.25 and 20.26 (where applicable) as well as the checklists and forms available on the Exchange's website. The following table sets out additional documentary and administrative

matters during the application process (unless otherwise specified, the documents should be in text searchable PDF format and submitted through HKEX-ESS):

<table>
<tr><th>Stages</th><th>Requirements</th></tr>
<tr><td>Before Form A2 submission</td><td>(i) A listing agent must register as a HKEX-ESS user at least three business days before any submission or publication of documents through HKEX-ESS.

(ii) A listing agent who is required to discharge the functions of a sponsor must submit a sponsor engagement letter.

(iii) A listing agent must obtain a company case number (Form CN001 (CIS)) from the Listing Division – IPO Vetting Department, at least one business day before filing the SFC authorisation application to the Exchange.

(iv) Submit Form A2 (e-Form CIS002[1]) through HKEX-ESS in advance of the expected filing date. The Exchange will only accept a scanned copy of the completed and signed version as the final listing application form.</td></tr>
<tr><td>At the time of Form A2 submission</td><td>(i) Initial listing fee should be deposited/transferred to the Exchange's designated bank accounts by cheque, electronic transfer or Faster Payment System ("FPS"). The payment record (i.e. the scanned/ electronic copy of cheque, bank-in slip and/or bank transfer confirmation) should be uploaded to the HKEX-ESS:

<table><tr><th>Payment</th><th>Details</th></tr><tr><td>Cheque</td><td>Name of Payee: The Stock Exchange of Hong Kong Limited
Bank: Hang Seng Bank Limited
Account no.: 262-008113-001</td></tr><tr><td>Electronic Transfer</td><td>Bank account number: 024-262-008113-001
Account name: The Stock Exchange of Hong Kong Limited
Bank: Hang Seng Bank Limited
Bank address: 83 Des Voeux Road Central Hong Kong
Swift code (for non-local transfer only): HASEHKHH</td></tr><tr><td>FPS</td><td>FPS email address: sedn@hkex.com.hk</td></tr></table></td></tr>
<tr><td>At least 4 clear business days before the expected date of issue of the approval-in-principle letter by the SFC</td><td>(i) In case of a placing involving bookbuilding activities (as defined under the Code of Conduct) in connection with a new listing, information under MB Rule 9.11(23a).</td></tr>
</table>

[1] e-Form CIS002 "Listing Application Form".

Stages	Requirements
On or before the issue of the listing document	(i) A listing agent's letter or email notifying the Exchange if the CIS applicant will not adopt the standard transfer form.
After the issue of the listing document but before dealings commence	(i) Submit a "ready-to-publish" electronic copy of the CIS Disclosure Document for publication through HKEX-ESS. For CIS applicant with IPO: (ii) Submit a "ready-to-publish" electronic copy of any application form for the subscription of CIS interests (in sample format) for publication through HKEX-ESS. A "SAMPLE" watermark (i.e. ghost text) or text to like effect should be printed on each page of the electronic copy of the application form. (iii) A draft allotment results for vetting according to the e-Submission System User Manual which should include "Search by Identity Card" function if the CIS applicant proposes to raise HK$1.5 billion or more in the Hong Kong offering. (iv) Relevant placee information and marketing statement in specified forms. (v) Receiving banks' staffs should be made aware that potential investors are permitted to obtain both English and Chinese versions of the CIS Disclosure Document during the offer period.

Stamp Duty Remission

15. With effect from February 2015, stamp duty is waived for the transfer of units of all Exchange Traded Funds ("**ETF**"), regardless of their underlying portfolios, dates of listings or whether stamp duty has been remitted in respect of them. Procedures to facilitate CIS applicants to obtain the stamp duty remission are not necessary.

Post-listing Requirements

Listing of additional interests after listing

16. Close-ended listed CIS issuers (e.g. REIT) must submit a listing application to the Exchange as required under MB Rule 20.15. This requirement does not apply to an open-end listed CIS issuer (e.g. ETF) as listing approval granted at the time of new listing covers any additional interests it may issue after listing.

Change in trading arrangements

17. A listed CIS issuer should consult the Exchange on any proposal to change its arrangements for trading in its interests on the Exchange (e.g. a consolidation or subdivision of the CIS interests in the form of units). It should agree its proposed change and timetable with the Exchange before it announces the proposal.

5.3 INVESTMENT COMPANIES

1. This chapter provides guidance on investment companies under MB Chapter 21.

Qualification of Directors, Investment Managers and Advisers

2. There is no explicit standard for measuring the fitness and competence of an investment company's director, investment manager and/or adviser. The Exchange expects a high standard of integrity and competence from those who are responsible for giving investment advice to an investment company.

3. A listing document should disclose the following information for the Exchange to assess the qualification of the directors, investment managers and/or advisers under MB Rule 21.04(1):

   (i) Details of their licences, academic and professional qualifications, including the year of acquisition and the granting institutions;

   (ii) Years of experience in professional management of investments on behalf of third party investors and/or providing investment advisory services to professional/institutional investors;

   (iii) Roles and responsibilities in present and past positions, and how their work experience relates to current roles in the investment company and/or its management company;

   (iv) Types (including investment objectives and policies), fund sizes and geographical coverage of the investments they managed. The size of the portfolios previously under management should be comparable to the proposed size of the investment company;

   (v) Track record and performance of portfolios during the period under their management; and their relative performance compared to that of other major managed funds and relevant indexes; and

   (vi) Any breaches of laws, rules and regulations in the relevant industry which have bearing on their integrity and/or competence. The Exchange will examine the timing and reasons for non-compliances and the experience the person has gained since then. For non-compliances related to integrity (e.g. market manipulation, failing to act in the best interest of clients on execution of orders), inexperience is not an acceptable explanation.

4. The sponsor must confirm, with basis, the suitability of the persons proposed to be the investment company's directors, investment managers and/or advisers. The Exchange may not approve the persons taking up the relevant positions in the investment company if the information referred to in paragraph 3 is not available.

Conflicts of Interest

5. Potential conflicts of interest arise where an executive director of the investment company is also a director/senior managing member of the investment manager; or where an investment manager manages both the investment company's funds and other third party funds.

6. Under these circumstances, the investment company must demonstrate that there is a satisfactory internal control mechanism to deal with conflicted situations and it should make appropriate disclosure in the listing document. This includes:

(i) Each executive director/investment manager/adviser must demonstrate that he/she is able to devote sufficient time and resources to look after the investment company's affairs;

(ii) Each conflicted individual must maintain the confidentiality of the information of the investment company and other third party funds managed, following the professional codes to which he/she is subject; and

(iii) A fair process for allocating investment opportunities between the investment company and other funds managed by each conflicted individual in a timely and equitable manner.

7. The following are non-exhaustive examples of measures to manage conflicts of interest:

Investment manager manages funds outside of the investment company

(i) The investment manager should have enough staff to support the investment company, including compliance officers who review order allocation on a daily basis to ensure fair allocation under its internal control measures.

(ii) The investment manager must disclose to the board of directors of the investment company, prior to entering into any investment transactions on behalf of other clients, and ensure that the investment company is given the opportunity to participate in such transactions.

(iii) To determine the subscription size of an investment, the investment manager must consider factors such as current weighting of assets, risk parameters, market outlook, constraints of investment exposure and the financial resources available to the investment company. If both the investment company and other clients of the investment manager are interested in participating in the same investment and the available investment is insufficient to satisfy these demands, the investment manager should allocate the investment proportionally based on their subscription size.

Investment company's director also manages other third party funds

(i) There should not be an excessive number of conflicted directors to hinder the investment company's decision making process.

(ii) Before entering into any investment transactions on behalf of third parties, the conflicted director must disclose it to the board of directors of the investment company, and refrain from voting on such transactions.

(iii) The INEDs must participate to make decisions in conflicted situations. They must have sufficient expertise and knowledge in running an investment management business on behalf of third parties. They, together with other non-conflicted directors, must together possess sufficient expertise and knowledge to ensure the proper functioning of the board of directors of the investment company. They must be able to seek advice from external legal counsel or other professionals to assist them in arriving at investment decisions.

8. The sponsor must confirm to the Exchange that any potential conflicts of interest are satisfactorily managed to ensure the smooth running of the investment company's affairs and to safeguard the shareholders' interest from being compromised.

Other Considerations for Listing

9. The Exchange will consider the investment company's:

   (i) Risk control and compliance measures to ensure compliance with its investment objective and policies as well as applicable laws, rules and regulations, and to review its investment portfolio and monitor its portfolio risk;

   (ii) Purpose in raising funds and rationale for listing; and

   (iii) Process to identify and assess potential investments.

Restricted Marketing

10. Where investment companies are not marketed to the public (except for professional investors) in Hong Kong, the following requirements shall apply:

Board lot and subscription size	At least HK$500,000 for each board lot. The Exchange will consider individual circumstances and adjust the minimum board lot and subscription size as it sees appropriate.
Market capitalisation	At least HK$150 million (i.e. 300 placees[1] with a subscription size of HK$500,000 per placee).

11. Investment companies with restricted marketing must not issue a listing document that constitutes an offer to the public. Hence, the listing document is not considered as a prospectus under the C(WUMP)O and should not require any registration in Hong Kong.

12. Adequate arrangements should be in place to ensure that the securities will not be marketed to the public investors in Hong Kong. Particularly, as part of the "know your client" procedures, intermediaries must satisfy themselves that each placee is a professional investor as defined in Schedule 1 of SFO.

13. The sponsor should provide a written submission by 6:00 p.m., at least four clear business days before the expected hearing date, confirming that there is unlikely to be significant public demand for the securities of the investment company. Additionally, the submission should state that adequate arrangements have been made to ensure that the securities of the investment company will not be marketed to the public under MB Rules 21.14(1) and 21.14(3).

[1] An investment company, like any company seeking a listing under MB Chapter 8, must demonstrate that there is sufficient interest in the securities to be offered to justify a listing. The minimum number of shareholders is therefore 300 for an investment company, irrespective of whether the offer is under restricted marketing, unless a waiver is granted.

5.4 BUSINESS TRUSTS AND STAPLED SECURITIES

1. This chapter[1] provides guidance on business trusts and stapled securities.

2. An applicant may consider listing a business trust, stapled securities, a corporate trust or a company which owns a business trust, by balancing its commercial needs and the common regulatory issues that it needs to overcome. An applicant is encouraged to consult the Exchange on any such proposed listing before submitting a listing application.

3. The Exchange will consider applications for listing of business trusts and stapled securities and regulate the relevant applicants by applying the same principles as those applicable to any company seeking a listing on the Exchange. The Exchange will invoke MB Rule 2.04 (GEM Rule 2.07) to impose additional requirements and modifications to the Listing Rules on a case-by-case basis and in a manner that fully preserves all the Listing Rule requirements for investor protection, disclosure and corporate governance.

Business Trusts and Corporate Trusts

4. A business trust is set up by a business enterprise, which is established and governed by a trust deed and managed by a trustee-manager, who manages and operates the trust's business and holds legal title of the business assets for the benefit of all unitholders (i.e. beneficiaries). Unitholders have no day-to-day control over the management of the trust's business but can receive profits, income, returns or other payments arising from the management of the business assets or business operation. Trust units are non-redeemable.

5. A corporate trust is where a company incorporates the features of a trust into its articles of association, and the company operates the business and holds the business assets for the benefit of all unitholders.

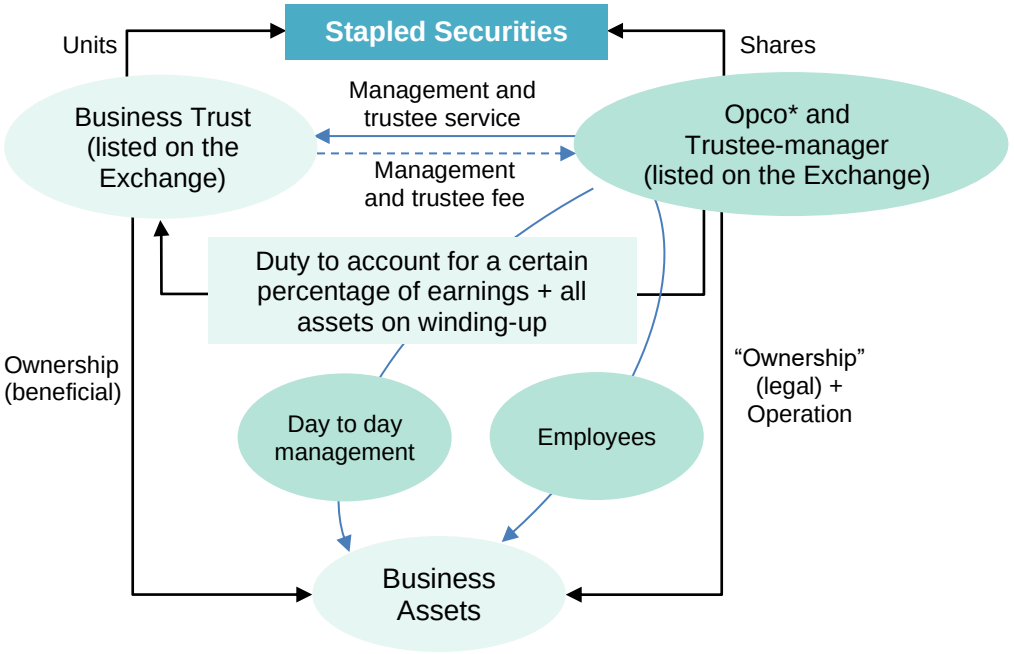
Stapled Securities

6. Stapling is an arrangement under which different securities, such as units of a business trust and shares of a holding company/operating company, are listed on the basis that they are legally bound together and cannot be transferred or traded separately. This arrangement can be structured to satisfy the requirements mentioned in paragraph 10 below.

7. Stapled securities may involve different classes of securities issued by an issuer or securities issued by different issuers. Typical stapling structures include (i) a "twin" structure where an issuer's ordinary securities are stapled to another issuer's ordinary securities; and (ii) a "parent/child" structure where an issuer's ordinary securities are stapled to a special class of securities of its subsidiary.

8. In the stapled securities scenario, it is possible for units of the business trust to be stapled to shares of the trustee-manager, or shares of the holding company of the trustee-manager. This approach is illustrated as follows:

[1] This chapter does not apply to REITs.



** Operating company ("**Opco**") has rights and duties to enforce covenants under the trust deed in favour of unitholders/members.*

Relevant Laws and Regulations

9. Relevant provisions of the SFO, Companies Ordinance, C(WUMP)O and Listing Rules generally apply to a corporate trust or a company that owns a business trust. Business trusts, unlike companies, are not subject to the provisions for shareholder protection under the SFO, Companies Ordinance, C(WUMP)O (or equivalent company laws of the jurisdiction where a company is incorporated) and other laws and regulations applicable to listed companies, and the Listing Rules also do not currently contain provisions which expressly deal with the listing of business trusts.

10. Despite the absence of any express provisions governing investor protection for business trusts as stated in paragraph 9 above, an applicant should at all times ensure that unitholders in business trusts are subject to the investor protection standards comparable to those required for Hong Kong corporate issuers such that unitholders are given the same level of protection as shareholders. In this connection, the following laws and regulations are relevant:

    (i) SFO. Key provisions include:

        (a) Market manipulation (Parts XIII and XIV of the SFO);

        (b) Insider dealing (Parts XIII and XIV of the SFO);

        (c) Disclosure of interests in shares (Part XV of the SFO);

        (d) Powers of the SFC to apply to courts for certain orders if the business or affairs of a listed corporation have been conducted in a manner that is oppressive, involves misconduct, etc. (section 214 of the SFO);

        (e) Powers of the SFC to require the production of documents concerning the affairs of a listed corporation (section 179 of the SFO); and

        (f) Powers for shareholders to require the listed corporation to investigate those

interested in its shares (sections 329 and 331 of the SFO).

An applicant must ensure that the relevant provisions of the SFO apply to its proposed structure as a whole, and must confirm or obtain legal opinions satisfactory to the SFC that the key provisions of the SFO would apply.

(ii) Companies Ordinance.

(iii) C(WUMP)O.

(iv) Listing Rules.

11. An applicant should address the issues (including additional requirements and modifications imposed by the Exchange under MB Rule 2.04 (GEM Rule 2.07)) and consider adopting the possible approaches in paragraph 12 below.

Common Issues, Possible Approaches and General Principles

12. The Exchange will consider listing applications for business trusts or corporate trusts on a case-by-case basis. The following issues and approaches are not exhaustive or definitive:

	Common Issues	Possible Approaches
SFO	(i) A listed business trust is not a "listed corporation" and unitholders are not shareholders of "listed corporations" under the SFO.	(a) Adopt a structure that will result in the key relevant provisions of the SFO being applicable to the business trust and its unitholders: (i) "stapled securities" structure; (ii) a HKT Trust[2] (stock code: 6823) structure; or (iii) corporate trust or a company that owns a business trust.
	(ii) Directors or employees of the trustee-manager may not constitute persons connected with the corporation under section 247 of the SFO for insider dealing.	(a) Trustee-manager and its directors/employees should have day-to-day management or business relationships with the subsidiaries or related corporations of the holding company/operating company such that these individuals can be persons connected with the corporation under section 247 of the SFO. (b) Business trust and the holding company/issuer should have the same board of directors.
	(iii) Relevant information for the business trust may not be relevant information for the corporation under section 245 of the SFO for insider dealing.	(a) The trust deed may provide that the business trust has a duty to account for a percentage of earnings (plus all assets on wind-up) to the holding company/operating company such that the relevant information for the business trust would become relevant information for the corporation. In addition, the corporation that operates the trust assets may also be listed. As a result, relevant information for the business trust and the corporation will both be subject to the provisions of the Listing Rules and the SFO.

[2] See HKT Trust's prospectus dated 16 November 2011.

	Common Issues	Possible Approaches
	(iv) The affairs of the business trust are not the affairs of the corporation under section 214 of the SFO that can be the subject of a complaint if conducted in an oppressive or unfairly prejudicial manner.	(a) The trust deed may provide that the holding company/operating company has the rights and duties to enforce covenants under the trust deed in favour of its shareholders (and unitholders if under a "stapled securities" arrangement) such that the affairs of the business trust would be the affairs of the holding company/operating company.
Takeovers Code	(i) Compliance with the Takeovers Code.	(a) Adopt a structure that can ensure compliance with and application of the Takeovers Code (e.g. a HKT Trust structure).
Listing Rules	(i) Potential conflict between duties of the trustee-manager to its shareholder (i.e. controller) and those to the trust's unitholders.	(a) Apply all Listing Rules requirements relating to an applicant's directors to the trustee-manager's directors and comply with the additional requirements set out in section C of Appendix I to this chapter. *Note: Definition of "connected person" is extended to include the trustee-manager, its directors and controlling shareholder, and any of their associates.*
	(ii) Business trust, unlike a company, can make distributions to unitholders in excess of net profits[3] as the company law restrictions on the amount of dividends that can be paid do not apply to business trusts.	(a) When the business trust announces any distribution to its unitholders, the trustee-manager's board of directors must on reasonable grounds confirm that the trustee-manager will be able to meet the liabilities of the business trust from the trust property as they fall due immediately after making the distribution. Each applicant is required to sign a listing agreement with the Exchange before the commencement of dealing of its units on the Exchange. **Appendix I** to this chapter provides a general form of the addendum to the listing agreement, which sets out the principles described above and the additional requirements and modifications the Exchange will impose on the trust.

13. An applicant should also address the following issues:

(i) Risks and consequences if the trustee-manager becomes insolvent;

(ii) Consequences of breach of trust;

(iii) Redemption or repurchase of the stapled units;

(iv) Segregation of the trustee-manager's assets from the trust's assets; and

[3] Companies incorporated in certain jurisdictions can also make distributions to their shareholders in excess of their net profits.

(v) Exercise of the trustee-manager's powers and its ability to invest and manage the trust's assets and other assets/business operations.

14. In addition, the Exchange applies the following principles to the listing of stapled securities:

Stapling provisions	(i) Once the SFC is satisfied on the applicability of the SFO requirements to its stapled securities structure, the stapled securities are treated as a "combined security" for the purposes of the Listing Rules. Any listing approval granted will be subject to the condition that the securities remain stapled at all times after listing. The Exchange may cancel the listing of all or any of these securities if they become unstapled. (ii) An issuer's constitutive documents must contain adequate arrangements to maintain the stapled structure after listing, including the following: (a) An issuer must not issue unstapled securities and must issue joint certificates and maintain joint registers for its stapled securities. (b) Securities cannot be transferred separately and an issuer must not issue new securities/register a transfer of securities unless there is a matching issue/transfer of securities of the other issuer/the other issuer's securities. (c) An issuer must not effect any corporate actions that would prejudice stapling, and any change to the stapling provisions must be approved by the Exchange. (d) An issuer must treat their partly paid securities in the same way. (iii) An issuer must disclose the stapled structure in its listing document and annual reports, and any proposed changes by way of announcements. (iv) An issuer must address any material issues that may arise from the use of the stapled structure if the underlying securities are governed by different regulatory regimes.
Stapled Group treatment	(i) The Exchange would treat issuers as a "combined entity" for the purpose of the Listing Rules when securities of different issuers are stapled together (the "**Stapled Group**") on the basis that they have identical investors and operate in a coordinated manner. The Exchange would: (a) Assess whether the issuers meet the listing requirements collectively, rather than individually, including the qualifications for new listing (e.g. the trading record requirements under MB Rule 8.05 (GEM Rule 11.12A)) and the continuing listing requirements (e.g. the requirement to maintain sufficient operations and assets under MB Rule 13.24 (GEM Rule 17.26)); (b) In relation to MB Rules 13.13 to 13.16 (GEM Rules 17.15 to 17.18) (advance to an entity), MB Chapter 14 (GEM Chapter 19) (notifiable transactions) and MB Chapter 14A (GEM Chapter 20) (connected transactions), allow issuers to calculate percentage ratios with reference to the size of the Stapled Group rather than individual issuers; and waive the relevant requirements under the Listing Rules for transactions between issuers in the Stapled Group if the interests of holders in the stapled securities will not be affected by the transactions;

(c) Allow connected persons of each issuer to include connected persons of other issuer(s) in the Stapled Group; and

(d) In the case of a business trust which is stapled to its trustee-manager or the holding company of the trustee-manager:

(1) Relax the requirement described in the note to paragraph 5(i) in Appendix I to this chapter to allow the trustee-manager to manage other businesses within the Stapled Group; and

(2) Waive the additional requirements or modifications as stated in paragraph 5(ii) of Appendix I to this chapter if the Stapled Group provides consolidated or combined financial statements under the financial reporting requirements in the Listing Rules, and paragraphs 7 and 9 of Appendix I to this chapter.

(ii) Issuers in the Stapled Group must cooperate to ensure compliance with the stapling provisions and the Listing Rules. They will normally be required to:

(a) Appoint the same authorised representatives as required under MB Rule 3.05 (GEM Rule 5.24); and

(b) Provide their financial statements on a consolidated or combined basis under the financial reporting requirements in the Listing Rules.

Appendix I – Addendum to Listing Agreement for Business Trusts

A. General

1. The Listing Rules apply to business trusts subject to additional requirements and modifications set out in this addendum. These requirements and modifications are imposed by the Exchange under MB Rule 2.04 (GEM Rule 2.07).

2. The principle underlying this addendum is to ensure unitholders of business trusts are subject to appropriate standards of investor protection comparable to those afforded to shareholders of Hong Kong issuers. The Exchange reserves its right to impose additional requirements under MB Rule 2.04 (GEM Rule 2.07) if it considers them necessary or desirable to ensure that this principle is met.

3. Terms in this addendum have the same meanings as in the Listing Rules unless otherwise stated.

B. Definitions and interpretations

4. The definitions and interpretations in the Listing Rules are modified as follows:

   (i) The reference to "issuer" in the Listing Rules includes a business trust whose units are the subject of a listing application or are already listed. The term "trustee-manager" means the trustee-manager of the business trust.

   (ii) Reference in the Listing Rules to:

      (a) "board of directors" of an issuer includes the trustee-manager and its board of directors;

      (b) "committee" established by an issuer's board of directors includes the committee established by the trustee-manager's board of directors;

      (c) "company secretary", "director" or "member of the senior management" of an issuer includes company secretary, director or member of the senior management respectively of the trustee-manager;

      (d) "shares" or "equity securities" includes units in the business trust; and

      (e) "shareholder" or "member" of an issuer includes the unitholders of the business trust.

C. Trustee-manager and its directors

5. The following additional requirements apply:

   (i) The business trust must have a trustee-manager acceptable to the Exchange.

   Note: The Exchange normally expects the trustee-manager to be a company which does not carry on any business other than the management and operation of the business trust as its trustee-manager.

   (ii) The trustee-manager must prepare and publish its accounts under the financial reporting

standards and requirements in the Listing Rules applicable to listed companies.

(iii) The business trust's unitholders can appoint or remove any trustee-manager by ordinary resolution in general meeting. The rights of unitholders to nominate, appoint or remove the trustee-manager must be comparable to those available to members of a Hong Kong issuer for nomination, appointment or removal of a director of the issuer.

(iv) The trustee-manager must not resign except upon the appointment of a new trustee-manager in the manner set out in the trust deed.

(v) In the case of a change of trustee-manager, the outgoing trustee-manager must hand over the books and records relating to the trust to the new trustee-manager and provide reasonable assistance to facilitate the change.

(vi) The Listing Rules relating to an issuer's directors apply to the trustee-manager's directors, including the provisions for unitholders to elect or remove the trustee-manager's directors.

Note: Appointment of a director must be voted on individually. Unanimous approval of unitholders is required to pass a resolution permitting appointment of two or more directors by a single resolution.

(vii) The business trust must include in its corporate governance report the policies and measures taken by the trustee-manager to manage conflicts and potential conflicts of interests between (a) the business trust and (b) its controlling unitholder, or any director or controlling shareholder of the trustee-manager.

6. MB Rule 2A.10 (GEM Rule 3.11) is modified to include the trustee-manager as one of the parties who may be subject to MB Rule 2A.09 (GEM Rule 3.10).

7. MB Rule 3.08 (GEM Rule 5.01) is modified to include an additional requirement that the trustee-manager and its directors must give priority to the interests of the unitholders as a whole if these conflict with the trustee-manager's interests.

D. Connected persons

8. The definitions of connected person in MB Rules 1.01 and 14A.11 (GEM Rule 1.01) are extended to include the trustee-manager, its directors and controlling shareholder, and any of their associates.

9. The following rules are modified so that the references to an issuer's "controlling shareholder" in the rules also include the trustee-manager and its controlling shareholder:

(i) MB Rules 6.12 and 6.13 (GEM Rules 9.20 and 9.21) (withdrawal of listing) and MB Rules 7.19 and 7.24 (GEM Rules 10.24A and 10.36) (large scale rights issue or open offer) – The trustee-manager, its controlling shareholder and their associates who are unitholders of the business trust must abstain from voting on the matters referred to in the Listing Rules.

(ii) MB Rule 8.10 (GEM Rule 11.04) (competing business) – The trust must comply with the rule if the trustee-manager or its controlling shareholder has an interest in a business that competes with the trust's business.

E. Continuing obligations

10. The following additional requirements apply:

Disclosure

(i) The business trust must publish an announcement as soon as practicable to disclose:

(a) a change in the trustee-manager; or

Note: The announcement of resignation of the trustee-manager must disclose the reasons for its resignation, and whether there are any matters that need to be brought to the attention of unitholders.

(b) Any of the events described in MB Rule 13.25 (GEM Rule 17.27) (winding-up and liquidation) in respect of the business trust, trustee-manager or its controlling shareholder.

Distribution

(ii) When the trust announces any distribution to its unitholders, the trustee-manager's board of directors must on reasonable grounds confirm that, immediately after making the distribution, the trustee-manager will be able to fulfil, from the trust property, the liabilities of the trust as they fall due, and disclose this confirmation in the announcement.

Matters requiring unitholders' approval

(iii) The following matters must be approved by unitholders on terms comparable to those required of a Hong Kong issuer:

(a) Change of the trust's constitutive documents;

(b) Change of the rights attached to any class of units in the trust;

(c) Consolidation or sub-division of units;

(d) Voluntary winding up of the trust; and

(e) Appointment, removal and remuneration of auditors.

General meetings

(iv) General meetings must be called and conducted on terms comparable to those required of a Hong Kong issuer. The rights of unitholders at general meetings must be comparable to those available to members of a Hong Kong issuer.

F. Trust deed

11. The trust deed (or the law governing the business trust) must contain provisions that comply with MB and GEM Appendix A1.

12. The trust deed must also contain:

    (i) The scope of the trust's business, its structure, and the nature of the units in it.

    (ii) Provision to the effect that the deed is binding on each unitholder as if he/she had been a party to it and so to be bound by its provisions and authorises and requires the trustee-manager to do as required of it by the terms of the deed.

    (iii) Unitholders' rights and liabilities. There must be provisions to limit the liability of a unitholder to the amount paid or payable for the purchase price of units held by the unitholder.

    (iv) The trustee-manager's responsibilities and power relating to the management and operation of the trust's business, its power to borrow or raise money on behalf of the trust, the fees and charges payable to it, and the circumstances under which it may be indemnified out of the trust property.

    Note: Nothing in the deed shall provide that the trustee-manager or its officers may be exempt from, or indemnified against, any liability for breach of trust through fraud or negligence or wilful default.

    (v) The duties and obligations of the trustee-manager and its directors including those set out in MB Rule 3.08 (GEM Rule 5.01).

    (vi) The circumstances and procedures for appointment, removal or resignation of the trustee-manager and its directors.

    (vii) The trust's distribution policy.

    (viii) Matters relating to the trust that require unitholders' approval and the approval thresholds.

    (ix) Proceedings for general meetings of unitholders.

    (x) Provisions for amendments to the trust deed. A variation of the trust deed should be subject to unitholders' approval.

    (xi) The circumstances in which the trust can be wound-up or terminated, the procedures to be followed, and the rights of the unitholders in the process.

    (xii) The circumstances in which the minority unitholders may be bought out or may require an offeror to buy out their interests after a successful takeover or repurchase of units.

    (xiii) The circumstances in which an interim trustee-manager may be appointed in the event that the trustee-manager has resigned or been removed, and the new trustee-manager has not been appointed.

13. A copy of the trust deed must be made available to the public without charge. The trust deed must also be published on the Exchange's website and the trust's website.

6 Other Matters



6.1 SPONSOR'S INDEPENDENCE, EXPERT ENGAGEMENT AND CMI APPOINTMENT

1. This chapter provides guidance on sponsor's independence, expert engagement and CMI appointment.

2. The Exchange expects all professional parties and experts named in the listing document to have performed sufficient due diligence to support their views on the relevant matters in relation to the listing application.

Sponsor's Independence

3. MB Rule 3A.07 (GEM Rule 6A.07) requires that at least one sponsor of an applicant must be independent and the sponsor to give a statement as to its independence in the Form A1 under MB Rules (Form A under the GEM Rules). It also sets out the circumstances where a sponsor is considered not independent. In determining whether the requirements of MB Rule 3A.07(9) (GEM Rule 6A.07(9)) are satisfied, a sponsor should consider, among other things:

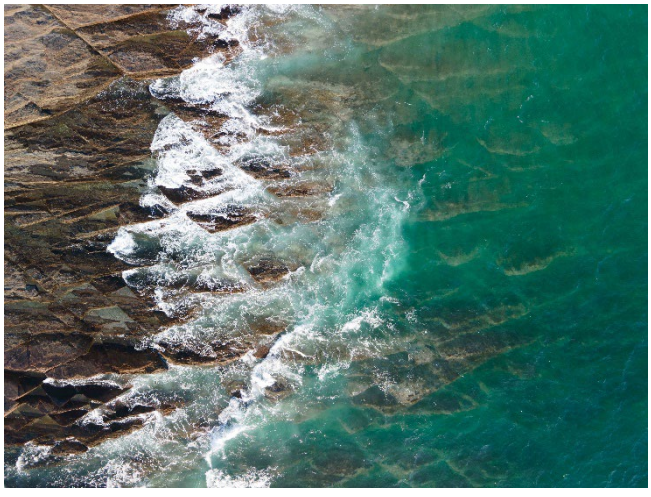
   (i) The nature of the relationship among the parties involved and when the business relationship in question commenced;

   (ii) Whether the parties in question were involved, directly or indirectly, in sourcing the engagement; and

   (iii) The nature and materiality of other relevant business relationships.

4. The assessment of independence is a fundamental responsibility of the sponsor, together with the directors of the applicant. The sponsor and the applicant must promptly inform the Exchange if, after submitting the listing application, there is a change in circumstances that renders the sponsor to be no longer independent. If the applicant no longer has at least one independent sponsor as required under MB Rule 3A.07 (GEM Rule 6A.07) due to the change, it must appoint a new independent sponsor and resubmit the listing application no less than two months after such formal appointment under MB Rule 3A.02B (GEM Rule 6A.02B).

5. Many sponsor firms and financial institutions have invested considerable time and effort to establish comprehensive systems for reviewing conflicts of interest and assessing independence in various circumstances. However, a sponsor should not merely rely on the existence of such measures when assessing its independence, without taking into account other factors, including those stated above.



6. For cases where the structure of the Sponsor Group is complicated or novel (e.g. partnership), the sponsor and the applicant are encouraged to consult with the Exchange in advance.

7. **Annex A.20** sets out listing decisions on sponsor's independence.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 310

Expert Engagement

8. As with any information included in a listing document, the expert report must be prepared to such a standard as would justify reasonable reliance upon it by investors. The applicant and sponsor are reminded to follow the below guidance where an expert is engaged:

   (i) The sponsor should conduct due diligence on the expert's background and experience, and the reasonableness and appropriateness of its scope of work.

   (ii) The directors and sponsor are responsible for ensuring that any expert report included in the listing document is a fair copy of, or extract from, that prepared by the expert, fairly represents the expert's view and neither omits any material facts of an unfavourable nature nor fails to accord them with appropriate significance. Principal assumptions on which an expert report is based must be reasonably specific to the applicant and disclosed in the listing document.

   (iii) Under no circumstances may there be any language, disclaimer or risk factor in the listing document that serves to restrict the application of the Listing Rules in a manner that is not consistent with the responsibilities of the directors and sponsor (e.g. the listing document should not contain (a) any disclaimer warning investors not to rely on the expert report; or (b) disclaimer from the reporting accountants warning investors not to rely on the profit forecast).

CMI Appointment

9. MB Rule 3A.33 (GEM Rule 6A.40) requires the appointment of a CMI by an issuer to be made by way of written engagement agreement before such CMI conducts any specified activities under MB Rule 3A.32 (GEM Rule 6A.39).

10. **Annex B.10** sets out the FAQs regarding the appointment of CMI.

6.2 RETURN OF LISTING APPLICATIONS

1. MB Rule 9.03(3) (GEM Rule 12.09) requires that an applicant submit a listing application form, an AP and all other relevant documents under MB Rule 9.10A(1) (GEM Rules 12.22 and 12.23) (collectively, the "**Application Materials**") (see **Chapter 6.3** for general documentary requirements).

2. If the Application Materials are not substantially complete, the Exchange may return the listing application and the applicant can only submit a new listing application together with new Application Materials not less than eight weeks after the Listing Division's decision to return a listing application[1] ("**Return Decision**"). Identity of the sponsor and the applicant, and the date of the Return Decision will be displayed on a designated webpage of the Exchange upon completion of all review procedures or the time for invoking them has lapsed.

3. This chapter provides guidance on (i) how the Application Materials are considered to be not substantially complete; (ii) Financial Information in the Application Materials; and (iii) the accelerated procedures to review a Return Decision/Listing Committee's decision that endorses a Return Decision ("**LC Decision**").

Application Materials Considered Not Substantially Complete

4. An applicant and its sponsor must adhere to the Listing Rules and follow all the guidance set out in this Guide and other materials as published on the Exchange's website from time to time. Failure to do so may render the Application Materials not substantially complete and the listing application may be returned. An applicant and its sponsor are advised to, among others:

   (i) Disclose information which a reasonable investor would require to make a fully-informed investment decision, and the information therein must be accurate and complete in all material respects and not be misleading or deceptive.

   (ii) Incorporate all the requisite information in the AP and achieve a standard of disclosure of a ready-to-publish listing document, except for information that by its nature can only be finalised and incorporated at a later date (see paragraphs 8 to 10 below).

   (iii) Include all necessary documents (e.g. profit and working capital forecast memorandum, sponsor's confirmation of the applicant's working capital sufficiency) and satisfy the specified period or other requirements as prescribed by the Listing Rules (e.g. (i) profit and working capital forecast memorandum should cover the period up to the forthcoming financial year end date after the proposed date of the listing; (ii) liquidity disclosure should be no more than two calendar months before the date of the AP; and (iii) the effective date on which resources and reserves are estimated or valued in a competent person's report of mineral companies must be less than six months before the expected date of the listing document based on the listing timetable submitted with the AP). The Application Materials should also include all required waivers except for those related to the offering that can only be finalised at a later date.

   (iv) Address the Exchange's comments where pre-IPO enquires were made and, for re-submission of a listing application that has lapsed, all outstanding comments of the Exchange and the SFC. Where a specific requirement is imposed by the Exchange or

[1] The eight weeks moratorium starts from the date of the Return Decision issued by the Exchange.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 312

contained in this Guide (e.g. a period to demonstrate business sustainability after rectification of non-compliant billing financing activities under **Chapter 1.2D**), the Application Materials can only be submitted after fulfilment of such conditions.

(v) Ensure that information material to an applicant is disclosed in the AP or otherwise specifically brought to the Exchange's attention, failing which the Application Materials may be considered not substantially complete (e.g. a material issue/incident which could detrimentally affect suitability for listing is only stated in a legal opinion without sponsor's assessment on its impact and is not specifically identified as such and brought to the Exchange's attention).

5. In addition, an AP required to be published on the Exchange's website (see **Chapter 6.4** for the details) should only be redacted to the extent necessary for the publication not to constitute a prospectus or an advertisement under the C(WUMP)O, or an invitation to the public in breach of the SFO. Any over redaction (e.g. redacting additional information or failure to include the required disclosure) may render the Application Materials not substantially complete.

6. Before submitting a listing application on behalf of an applicant, a sponsor should come to a reasonable opinion that the information in the Application Materials is not substantially incomplete. An applicant and its sponsor should not rely on the vetting processes of the Exchange and the SFC as a catalyst for disclosure.

7. The Exchange considers that if an applicant remains failed to explain clearly the fundamental issues of the listing application, such as its business model or operations, after submission of further information, this may be the basis that the Application Materials are not substantially complete.

Information that can be omitted or in square bracket

8. To provide flexibility to an applicant and its sponsor, the Exchange allows, in an AP, (i) omission of information that can only be ascertained at a later stage; and (ii) disclosure in square brackets for information that will be updated later during the vetting process.

9. The following information can be omitted[2] in an AP (only to the extent that is unavailable at the time when an AP is submitted[3]):

Information that can be omitted in an AP	
Offering Related Information	**Others**
(i) Stock code (ii) Number of offer shares (iii) Offer price (iv) Offer statistics (v) Offer-related information (vi) Identity of underwriters (vii) Salient terms of the underwriting agreement (viii) Identities of legal advisers to underwriters (ix) Identity of receiving banks (x) Dollar value of proceeds to an applicant (xi) Dollar value of proceeds to selling shareholder (xii) Percentage of offer price of all the offer	(a) Unaudited pro forma adjusted net tangible assets (b) Unaudited adjusted pro forma forecast earnings per share (c) Identity and background of Cornerstone Investors (d) Number and percentage of shares subscribed by Cornerstone Investors (e) Appointment dates of INEDs (f) Information required under paragraph 3B of MB Appendix D1A (paragraph 3B of GEM Appendix D1A) (g) Date of accountants' report (h) Date of the report on profit forecast

[2] For information that must be redacted for the purpose of posting an AP on the Exchange's website, see **Chapter 6.4** for details.

[3] Otherwise can be in square brackets if such information is subject to change/update.

shares as commission and expenses and the relevant amounts
(xiii) Activities by syndicate members

(i) Date of the expert report
(j) Date of events or information which cannot be estimated (e.g. date of events relating to reorganisation)

Note: For the avoidance of doubt, sponsor's fee and the identity of OC should not be omitted (but permitted to be in square brackets) in the AP, given that breakdown of listing expenses is required to be submitted to the Exchange and at least one OC should have been appointed at the time of submission of listing application.

10. The following information can be in square brackets in an AP. It should reflect the expected status upon issuance of the listing document based on current estimation or, where estimation is not practical, reflect at least the current status as at the date of submission of the AP:

Information that can be in square bracket in an AP

Corporate Information

(i) Applicant's logo
(ii) Applicant's website
(iii) Company secretary
(iv) Composition of board committees
(v) Board lot size

Financial Information

(i) Liquidity disclosure (see **Chapter 3.11** for details)
(ii) LPD financial information
(iii) Profit forecast figures
(iv) Statement that the profit forecast may be updated
(v) Working capital sufficiency statement
(vi) Percentage of each intended use of proceeds to total proceeds
(vii) Percentage of total proceeds to selling shareholder (if confirmed)

Shareholdings and Reorganisation

(i) Dates of regulatory/shareholders' approvals
(ii) Date of completion of reorganisation/ PRC filing procedures/other relevant approval
(iii) Events that are expected to take place after the submission of the AP in the "History and Development" section
(iv) Shares in issue
(v) Interests of substantial shareholders upon listing

Offering Related Information

(a) Expected offering timetable
(b) Selling shareholder
(c) Discount of pre-IPO investment to offer price
(d) Number of shares to be repurchased upon listing
(e) Mechanism of determining offer price
(f) Allocation basis, reallocation and clawback mechanism
(g) Overallotment, stabilisation, stock borrowing arrangement, offer size adjustment option and other similar arrangements
(h) Conditions of the offer
(i) Dealing arrangements

Others

(a) Recent development
(b) Date of LPD
(c) Wording "the Exchange and the SFC have granted certain waivers/ exemptions/consents"
(d) Independence of sponsor[4]
(e) Effective date of competent person's report of mineral companies and/or effective valuation date of other expert reports
(f) Annual caps for continuing connected transactions

[4] In respect of change in sponsor's independence due to the matters set out in MB Rule 3A.07 (GEM Rule 6A.07) during the vetting process.

Financial Information in the Application Materials

11. The latest financial period reported on by the reporting accountants for an applicant must not have ended more than six months prior to the date of the listing document, which is determined based on the listing timetable submitted with the AP (see **Chapter 3.11** for requirements on stub period and **Chapter 1.1A** for requirements on trading record period).

12. A listing application filed before the end of the most recent financial year of its trading record period will be returned for not being substantially complete. In this circumstance, the Exchange has no sufficient basis/information to assess the listing application as the applicant has yet to have completed the last full financial year of its trading record period as required under the Listing Rules.

13. For a listing application filed after the end of the most recent financial year of its trading record period, the Exchange accepts Application Materials with accountants' reports covering a period shorter than the trading record period required under the Listing Rules[5], and will not consider the Application Materials not substantially complete if (i) the financial information set out in the following table, and (ii) the confirmations set out in paragraph 14, are submitted together with the listing application[6].

When listing application is filed (number of months after the end of the most recent financial year of its trading record period)	**Example of date of filing** (for applicants with trading record from 1 January 2021 to 31 December 2023)	**Required financial information**
Within 2 months	Between 1 January 2024 and 29 February 2024	First two financial years* of the trading record period + stub period# of at least 9 months
3 - 6 months	Between 1 March 2024 and 30 June 2024	Three financial years** of the trading record period
7 - 8 months	Between 1 July 2024 and 31 August 2024	Three financial years** of the trading record period + stub period# of at least 3 months
9 - 12 months	Between 1 September 2024 and 31 December 2024	Three financial years** of the trading record period + stub period# of at least 6 months

* One financial year of the trading record period for Biotech Companies under MB Chapter 18A and GEM applicants.

** Two financial years of the trading record period for Biotech Companies under MB Chapter 18A and GEM applicants.

\# The stub period financial information and the Stub Period Comparatives disclosed in the AP must be at least reviewed by reporting accountants in accordance with ISRE

[5] For the avoidance of doubt, the final listing document must still fulfill the financial period requirement under paragraph 11.

[6] The requirements under paragraphs 13 and 14 apply correspondingly to an applicant who applies for listing with a shorter trading record period under the Listing Rules (e.g. MB Rules 8.05A and 8.05B, and note to MB Rule 18C.03(2) (GEM Rule 11.14)).

2410[7], and such financial information can either be part of the accountants' report or in a separate appendix to the AP.

14. An applicant must also provide the following:

    (i) Confirmation from the reporting accountants (the "**RA Confirmation**") to the applicant and copied to the sponsor, the Exchange and the SFC, that no significant adjustment is expected to be made to the financial years which must be subject to an audit in the final listing document based on the work done as at the date of the confirmation and, if applicable, that they have substantially completed a review of the stub period financial information according to the Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity";

    (ii) Financial information for the complete trading record period and the RA Confirmation on such complete financial information as soon as practicable; and

    (iii) For a listing application filed within two months after the end of an applicant's most recent financial year of its trading record period, the sponsor's confirmation that it is beyond reasonable doubt that the applicant will satisfy MB Rule 8.05 (GEM Rule 11.12A) or other financial standard requirements following its due diligence review.

15. The following is an illustrative example of the financial information requirement as set out in paragraph 13 above:

Question:
Company A is a MB listing applicant with a December financial year end. It proposed to list in April next year [year T+1]. Can Company A file a listing application in November of this year [year T] with financial information covering financial years ended [year T-3], [year T-2] and [year T-1] and a stub period of 6 months of [year T]?

Answer:
No. Based on Company A's listing timetable, its trading record period should be the three years comprising [year T-2], [year T-1] and [year T]. If Company A files its listing application in November of [year T] (i.e. before the end of the most recent financial year of its trading record period), the listing application will be returned for not being substantially complete.

Instead, Company A is allowed to file its listing application within 2 months after the end of [year T] with financial information covering financial years ended [year T-2] and [year T-1] and a stub period of 9 months of [year T], together with the confirmations set out in paragraph 14 above. Subsequent to the filing of its listing application, Company A should also provide the financial information covering the required trading record period set out in paragraph 11 above.

16. If an applicant has acquired or intends to acquire a company or business since the date to which the latest audited (or advanced draft) accounts have been made up (the "**Acquisition**")[8], the AP should include the relevant information required under MB Rules 4.04(2), 4.04(4)(a)

[7] HKAS 34 "Interim Financial Reporting" allows disclosure of condensed financial statements or complete set of financial statements in interim financial reports. For the purposes of the stub period financial information under this chapter, both condensed financial statements and complete set of financial statements are acceptable as long as they comply with the requirements under paragraph 16 below, in particular the stub period financial information should at least include the same items as in the audited financial information for easy comparison and review.

[8] Please see MB Rule 4.02A (GEM Rule 7.01A) for clarification of meaning of "acquisition of business", "trading record period" and "proposed to be acquired".

and 4.29 (GEM Rules 7.03(2), 7.03(4)(a) and 7.31), unless the applicant's trading record period covers the Acquisition, in which case the requirements under MB Rule 4.05A (GEM Rule 7.04A) will apply to the Acquisition instead. The complete financial information must be included in a subsequent proof as soon as practicable.

Timing Requirements for property valuation report and other expert reports in the Application Materials

17. The effective valuation date/ effective date of the relevant documents in an AP should be as follows:

    (i) Property valuation report – the effective valuation date should not be more than three months before the date of the AP.

    (ii) Other expert reports –

        (a) Competent person's report of mineral companies under MB Chapter 18 (GEM Chapter 18A) – the effective date on which resources and reserves are estimated or valued[9] must be less than six months before the expected date of listing document based on the listing timetable submitted with the AP.

        (b) Other expert reports – the effective valuation date must be less than six months before the expected date of listing document based on the listing timetable submitted with the AP.

    *Note: For clarity, an applicant which submits an AP with accountants' reports covering a period shorter than the trading record period required under the Listing Rules, as specified in **paragraph 13** above, is still required to comply with the above timing requirements for property valuation report and other expert reports in the AP.*

18. **Annex A.21** sets out listing decisions where the Exchange returned listing applications.

Accelerated Review Procedures for Return Decision/LC Decision

19. Each of an applicant and its sponsor has the right to review the Return Decision and the LC Decision under MB Rule 2B.05(2) (GEM Rule 4.05(2)). The Exchange has accelerated review procedures for Return Decision and LC Decision[10] ("**Accelerated Review Procedures**") (see Appendix I to this chapter).

[9] That is, the appraisal date and not the date when the competent person's report was signed and/or issued.

[10] The Accelerated Review Procedures do not apply to a Listing Division's or SFC's decision to return a new collective investment scheme applicant's AP required to be submitted under MB Rule 20.25.

Appendix I – Accelerated Review Procedures

The table below set out stages of an accelerated review for Return Decision/LC Decision and the required actions by the Exchange and an applicant and/or its sponsor:

Review Procedures		Responsible Parties	
For Return Decision	**For LC Decision**	**Exchange**	**Applicant and/or Sponsor**
Within five business days after receipt of the Return Decision/LC Decision			
(i) Applicant and/or its sponsor submits a written review request (the "**First Review Request**") to the Secretary to the Main Board or GEM Listing Committee (the "**Secretary to LC**"). (ii) First Review Request must include the grounds and reasons for review and the review fee, and must be based on the original materials submitted to the Listing Division when the applicant first filed its listing application.	(a) Applicant and/or its sponsor submits a second written review request (the "**Second Review Request**") to the Secretary to the Main Board or GEM Listing Review Committee (the "**Secretary to LRC**"). (b) Second Review Request must include the grounds and reasons for second review and the review fee, and must be based on the original materials submitted to the Listing Division when the applicant first filed its application.		✓
Next business day after receipt of the First or Second Review Request			
(iii) The Secretary to LC sends a letter to the applicant and/or its sponsor specifying the date[11] and time for the review hearing (the "**First Review Hearing**").	(c) The Secretary to LRC sends a letter to the applicant and/or its sponsor specifying the date[12] and time for the second review hearing (the "**Second Review Hearing**").	✓	
At least two business days before the First or Second Review Hearing			
(iv) The Listing Division submits a report to the Secretary to LC, which shall comprise (i) the Return Decision; and (ii) the relevant Application Materials (or the extract thereof) and/or other documents that support the Return Decision.	(d) The Listing Division submits a report to the Secretary to LRC, which shall comprise the (i) Return Decision; (ii) LC Decision; and (iii) the relevant Application Materials (or the extract thereof) and/or other documents that support the Return Decision.	✓	

[11] The First Review Hearing will be the immediate Thursday after receipt of the First Review Request, provided that there is not less than three business days after receipt of the request. If such date falls on a public holiday, then the First Review Hearing will be scheduled to the following Tuesday (subject to the availability of the members of the LC) or Thursday that is not a public holiday. If there is insufficient number of LC members to form a quorum on the scheduled date of the First Review Hearing, the hearing will be rescheduled to the next available Tuesday or Thursday based on the aforesaid principle.

[12] The Second Review Hearing will be the immediate Tuesday (subject to the availability of the LRC) or Thursday after receipt of the Second Review Request, provided that there is not less than three business days after receipt of the request. If such date falls on a public holiday, then the Second Review Hearing will be scheduled to the following Tuesday (subject to the availability of the LRC members) or Thursday that is not a public holiday. If there is insufficient number of LRC members to form a quorum on the scheduled date of the Second Review Hearing, the hearing will be rescheduled to the next available Tuesday or Thursday based on the aforesaid principle.

Review Procedures		Responsible Parties	
For Return Decision	**For LC Decision**	**Exchange**	**Applicant and/or Sponsor**
At least one business day before the First or Second Review Hearing			
(v) The Secretary to LC circulates the First Review Request, Listing Division's report and agenda to the LC.	(e) The Secretary to LRC circulates the Second Review Request, Listing Division's report and agenda to the LRC.	✓	
The day on the First or Second Review Hearing			
(vi) Quorum for the First Review Hearing is five persons (including the chairman of the LC and excluding any conflicted members). (vii) Listing Division, the applicant's directors, one representative of each of the applicant's legal adviser, financial adviser and auditors, one representative from each sponsor, and each sponsor's legal adviser may attend the First Review Hearing. (viii) If any of the parties seeking a review decides not to attend the First Review Hearing, the hearing will proceed in such party's absence. If all parties decide to be absent, the hearing will proceed based on the documents submitted.	(f) Quorum for the Second Review Hearing is five persons (including the chairman of the LRC and excluding any conflicted members). (g) Listing Division, the applicant's directors, one representative of each of the applicant's legal adviser, financial adviser and auditors, one representative from each sponsor, and each sponsor's legal adviser may attend the Second Review Hearing. (h) If any of the parties seeking a review decides not to attend the Second Review Hearing, the hearing will proceed in such party's absence. If all parties decide to be absent, the hearing will proceed based on the documents submitted.	✓	✓
The next business day after the First or Second Review Hearing			
(ix) The Secretary to LC sends the LC Decision, to the applicant and/or its sponsors and the Listing Division. If LC endorses the return decision, the LC Decision will contain the reasoning of the LC Decision.	(i) The Secretary to LRC sends the LRC's decision letter to the applicant and/or its sponsors and the Listing Division, which is conclusive and binding.	✓	

6.3 GENERAL DOCUMENTARY REQUIREMENTS

1. This chapter provides guidance on the documentary requirements and administrative matters at different stages of a listing application, including a GEM transfer application. For an Eligible Issuer eligible for a streamlined transfer of listing from GEM to Main Board under MB Rule 9B.01, see also MB Chapter 9B for details.

2. Unless otherwise specified, documents should be in text searchable PDF format and submitted to the Exchange through HKEX-ESS or FINI. Any submission through email may not be received and handled by the Exchange.

Pre-IPO Enquiry

3. During the preparation of a listing application, if the applicant and its advisers have novel and specific queries regarding the interpretation of the Listing Rules, they may submit a written enquiry to the Exchange for guidance. The written enquiry should state the applicant's name and be accompanied by a completed e-Form M119/G118[1]. The Exchange considers pre-IPO enquiries which are novel and specific. Sponsor should not take the pre-IPO enquiry process as a means to pre-vet the listing document or shift their responsibility to ensure that an AP is substantially complete.

Before Submission of Listing Application

4. The sponsor should conduct the following:

Submit a sponsor engagement letter	(i)	Submit Form SE001[2] together with a copy of the sponsor's appointment letter as per the timeline set out in MB Rules 3A.02A(1) and 3A.02B (GEM Rules 6A.02A(1) and 6A.02B). If the sponsor or a company within its group is also appointed as the sponsor-OC under MB Rule 3A.43, the required information on such appointment and the sponsor-OC shall also be filled in such form.
Activate a company case number	(i)	See paragraph 9 of **Chapter 6.4** for details.
Complete listing application form	(i)	Complete e-Form M103/G103[3] and submit it through HKEX-ESS first to generate a submission number (the "**Submission Number**"). Thereafter, download and print the completed listing application form (a read-only PDF file with Submission Number on the footer of each page) for signature and upload the signed copy through HKEX-ESS. The Exchange will only accept the completed and signed version submitted through HKEX-ESS as the final listing application form (see the e-form filling guides).

1 e-Form M119/G118 "Additional information to be submitted with Pre-IPO Enquiry/Form A1/Form A".
2 Form SE001 "Sponsor and Sponsor-OC Engagement Notification Form".
3 e-Form M103/G103 "Listing Application Form".

At Submission of Listing Application

Documentary requirements

5. The Exchange will treat the date it receives all the relevant documents through HKEX-ESS as the filing date of the listing application. An applicant is required to submit the following:

Applicant Type	Requirements
All types of applicants	Documents under MB Rules 9.03 and 9.11(1) to 9.11(17d) (GEM Rules 12.12 to 12.14, 12.22 and 12.23) together with additional information set out in Form M104/G104[4].
In addition to the above:	
Overseas applicants[5]	A final or draft legal opinion from a legal adviser of the relevant jurisdiction on the applicant's Chinese name if a Chinese stock short name is required.
Applicants applying for a certificate of exemption under C(WUMP)O[6]	A final or an advanced draft of the applications to both the Exchange and the SFC. See **Chapter 6.5** for guidance on application for exemption from compliance with the C(WUMP)O.
Applicants applying for a transfer of listing from GEM to Main Board	Information on: (i) The percentage of public float as at the applicable LPD; (ii) The number of shareholders as at the applicable LPD; and (iii) The identity of three largest shareholders and their aggregate shareholding as at the applicable LPD.

Initial listing fee

6. Initial listing fee should be deposited/transferred to the Exchange's designated bank accounts by cheque, electronic transfer or Faster Payment System ("**FPS**"). The payment record (i.e. the scanned/electronic copy of cheque, bank-in slip and/or bank transfer confirmation) should be uploaded to the HKEX-ESS:

[4] As part of its due diligence exercise, sponsor is expected to obtain written confirmations from (i) reporting accountants that no significant adjustment is expected to be made to the historical financial information, the pro forma financial information and the profit forecast (if any) included in the AP (previously Form M116/G116); (ii) each of the experts named in the AP that no material change is expected to be made to his opinion in the AP (previously Form M117/G117); and (iii) legal adviser on the applicant's compliance with C(WUMP)O, at the time of listing application and when the relevant information in the listing document is updated. Sponsor should provide the Exchange with such confirmations on request. Applicant and its directors are obliged to procure the relevant parties to cooperate fully with the sponsor to facilitate its performance of its duties.

[5] Refer to applicants incorporated outside Hong Kong and the PRC. See also **Chapter 2.1** for the required submissions from an overseas issuer at pre-IPO enquiry and subsequent listing application stages.

[6] Applies only to a listing document that constitutes a prospectus under the C(WUMP)O.

Payment	Details
Cheque	**Name of Payee:** The Stock Exchange of Hong Kong Limited **Bank:** Hang Seng Bank Limited **Account no.:** 262-008113-001
Electronic Transfer	**Bank account number:** 024-262-008113-001 **Account name:** The Stock Exchange of Hong Kong Limited **Bank:** Hang Seng Bank Limited **Bank address:** 83 Des Voeux Road Central Hong Kong **Swift code (for non-local transfer only):** HASEHKHH
FPS	**FPS email address:** sedn@hkex.com.hk

7. The initial listing fee will be:

   (i) Refunded if the Exchange decides to return the listing application before the issue of the first comment letter due to the information submitted not being substantially complete (see **Chapter 6.2** for details) [7].

   (ii) Forfeited if an applicant delays its proposed listing timetable more than three times before the lapse of its listing application. An applicant wishing to re-submit its listing application must submit a new listing application form accompanied by a new initial listing fee.

By 6 p.m. At Least Four Clear Business Days Before the Expected Hearing Date

8. An applicant is required to submit the following:

Applicant Type	Requirements
All types of applicants	(i) Documents under MB Rules 9.11(18) to 9.11(23b) (GEM Rules 12.23AA and 12.23BB). (ii) Duly completed e-Form M112/G112 (if not submitted before). If there is updated information in relation to the application for a waiver from strict compliance with the Listing Rules since the submission of listing application form, the completed copy of the revised e-Form M112/G112. (iii) A completed e-Form M201/G201 or e-Form M501[8].

9. To provide flexibility and to facilitate the vetting process, the final proof of the listing document should be submitted at least two clear business days before the expected hearing date (all dates exclusive). A copy of the notification issued by the China Securities Regulatory Commission (the "**CSRC**") on the new applicant's completion of the PRC filing procedures (the

[7] The Exchange will notify the sponsor in its letter of return that the fee will be refunded and request for necessary information from the sponsor for the refund process.

[8] e-Form M201/G201 "New Listing Particulars of the applicant"; e-Form M501 "Form C3Z Formal Application (for open-ended investment companies, unit trust, mutual funds and other collective investment schemes governed by Chapter 21 of the Listing Rules)".

"**CSRC Notification**") (if applicable) should be submitted at least three clear business days before the expected hearing date (all dates exclusive). The Exchange may allow the final proof of the listing document and a copy of the CSRC Notification to be submitted on a later date on a case-by-case basis.

10. An applicant and its sponsor must adhere to the time for submission to avoid delay of the LC hearing.

Before Finalisation of the Listing Document

Documentary requirements

11. An applicant is required to submit the following:

Applicant Type	Requirements
All types of applicants	(i) Documents under MB Rules 9.11(25) to 9.11(28b) (GEM Rule 12.23A). (ii) A copy of the executed undertakings from the applicant's controlling shareholder in relation to pledged/charged securities, as required under note 3 to MB Rule 10.07 (GEM Rule 13.19). (iii) A written notification to the Exchange if the applicant will not adopt the standard transfer form.
In addition to the above:	
Applicants applying for a transfer of listing from GEM to Main Board	(i) Information on: (a) The percentage of public float as at the applicable LPD; (b) The number of shareholders as at the applicable LPD; and (c) The identity of three largest shareholders and their aggregate shareholding as at the applicable LPD.

Initiation of IPO case on FINI

12. A unique FINI case number (or known as FINI Key) will be contained in the Post-Hearing Letter (with no objection) issued by the Exchange. Anytime after receipt of a Post-Hearing Letter (with no objection) (or after publication of PHIP for applicants allowed to make a confidential filing), designated sponsor should log onto the FINI website and enter the FINI Key to initiate an "IPO case" (i.e. offering) on FINI website for clearance by HKSCC.

On or Before the Issue of the Listing Document

13. An applicant is required to submit the following documents:

(i) Documents under MB Rules 9.11(31) to 9.11(32a) (GEM Rule 12.24).

(ii) Where applicable, documents under MB Rule 9.11(33) (GEM Rule 12.25).

After the Issue of the Listing Document but before Dealings Commence

Documentary requirements

14. An applicant is required to submit and/or publish the following documents:

Applicant Type	Requirements
All types of applicants	(i) Documents under MB Rules 9.11(35) to 9.11(39) (GEM Rule 12.26). (ii) A ready-to-publish electronic copy of the prospectus and any application forms [9] for publication on the Exchange's website under MB Rule 2.07C(1)(b)(ii) (GEM Rule 16.17(2)(b)).
In addition to the above:	
Applicants applying for a transfer of listing from GEM to Main Board	(i) Information on: (a) The percentage of public float as at the applicable LPD; (b) The number of shareholders as at the applicable LPD; and (c) The identity of three largest shareholders and their aggregate shareholding as at the applicable LPD.
Applicants applying for a secondary listing or overseas applicant[5] that meets the criteria set out in MB Rule 19.60 (GEM Rule 24.27)	(i) A Company Information Sheet.

Outsourcing the review process of IPO application forms

15. Where the review process of IPO application forms is outsourced to a third party service provider (e.g. a licensed share registrar), the applicant's director and the sponsor should:

(i) Make reasonable enquiries in relation to the service provider's background, credentials, experience and the appropriateness of the scope of work performed in light of the codes of conduct applicable to the service provider's trade;

(ii) Unless where the applicant's circumstances warrant other considerations to be taken into account, discuss and agree with the service provider on the appropriate criteria for rejecting multiple or suspected multiple applications, instead of relying solely on the service provider's standard practices; and

[9] To prevent applicants for Hong Kong offer shares from using a downloaded electronic application form for subscription purposes which may contain reproduction errors, a "SAMPLE" watermark (i.e. ghost text) should be printed on each page of the electronic copy of the application form.

(iii) Account for the responsibilities under MB Rule 10.09(1) (GEM Rule 13.21).

Publication of Allotment Results Announcement

16. To ensure the efficient administration and publication of allotment results announcement, an applicant should:

(i) Submit an electronic file of the allotment results announcement for publication on the Exchange's website under Appendix F of the e-Submission System User Manual for Publication Related Matters; and

(ii) Include a "Search by ID number" function to facilitate searching of allotment results on the share registrar's/applicant's own website.

17. In the allotment results announcement, an applicant should disclose (i) the minimum prescribed public float percentage threshold [10] pursuant to MB Rule 8.08(1)/19A.13A (GEM Rule 11.23(7)/25.07A) based on the final offer price; and (ii) a statement confirming its compliance with (a) the applicable public float threshold immediately upon listing; and (b) the free float requirement pursuant to MB Rule 8.08A/19A.13C (GEM Rule 11.23A/25.07B).

IPO brokerage distribution process

18. Electronic transfer is permitted for the distribution of IPO brokerage to Exchange Participants' bank accounts. An applicant is encouraged to distribute IPO brokerage to Exchange Participants through autopay for every successful application. To effect the autopay arrangement, the applicant should submit a written request to HKSCC at least three business day before the listing document date, requesting HKSCC to release to it or its share registrar information in relation to the bank accounts of Exchange Participants in CCASS. For queries, contact a HKSCC personnel on +852 2211 6271 or +852 2211 6258.

19. **Annex B.11** sets out the FAQs for this chapter.

[10] For a PRC issuer with other listed shares (as defined in MB Rule 19A.04 (GEM Rule 25.04(3)(b))) in reliance upon the market value threshold under MB Rule 19A.13A(2)(b) (GEM Rule 25.07A(2)(b)), the minimum prescribed public float percentage threshold shall mean the percentage derived by dividing HK$3 billion by the total market value of the applicant's total number of issued shares (excluding treasury shares) in the class to which H shares belong at the time of listing.

6.4 POSTING OF AP, PHIP, OC ANNOUNCEMENT AND STATEMENTS

1. This chapter[1] provides guidance on arrangements for the submission and publication of an AP, OC Announcement, a PHIP and the statements under MB Rule 9.08(2)(c) (GEM Rule 12.10(2)(c)) (the "**Statements**") on the Exchange's website.

General

2. Publication of an AP, OC Announcement and a PHIP on the Exchange's website (the "**Publications**") must, among other things, include appropriate disclaimers and warning statements and should not contain any information regarding the proposed offering or other information that would result in the Publications being deemed as:

   (i) A prospectus under section 2(1) of the C(WUMP)O;

   (ii) An advertisement under section 38B(1) of the C(WUMP)O; or

   (iii) An invitation to the public in breach of section 103(1) of the SFO (collectively, the "**Offering Materials**").

3. To comply with the above principle, an applicant and its sponsor must adhere to the following guidance:

Warning and Disclaimer Statements

(i) Appendices I, II and III to this chapter provide non-exhaustive examples of the minimum content requirements for the warning and disclaimer statements. An applicant can adopt statements that have additional elements without detracting from those set out in the examples.

Redactions in AP and PHIP to be published on the Exchange's website

(i) See paragraphs 18 to 21 below for guidance on what information must be redacted in the AP and PHIP.

(ii) An applicant's legal adviser must provide a confirmation to the Exchange in relation to the redactions of these documents according to paragraph 7 of MB Practice Note 22 (paragraph 6 of GEM Practice Note 5).

Inadequate redaction may render the AP and PHIP as Offering Materials, and the publication of such AP or PHIP can condition the market ahead of the publication of a properly authorised listing document and affect market perceptions of an upcoming offer. Strict measures will be taken to "cool off" any undesirable impact on the market, including immediate removal of the AP or PHIP from the Exchange's website and/or suspension of the vetting of the listing application for up to a month from the date of such withdrawal.

4. An applicant should also submit an AP (without redactions) ("**AP-Vetting**") for the Exchange's vetting.

[1] For this chapter, an applicant includes a CIS applicant that needs to publish an AP and a PHIP under MB Rules 20.25 and 20.26; and a sponsor includes a "listing agent" or a person appointed by a CIS applicant that needs to discharge the equivalent functions of a sponsor for listing of interests in a CIS under MB Chapter 20.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 326

5. An applicant at its own discretion may publish the Statements on the Exchange's website stating that no reliance should be placed on any media reports about the applicant after the publication of its AP/OC Announcement/PHIP. The Exchange does not review the Statements, but the applicant must submit a copy to the Exchange for its record prior to publication. Each Statement must not include information that (i) would result in the Statement being deemed to be Offering Materials; (ii) discusses its proposed issue of securities; or (iii) promotes its securities to be issued or its listing. A recommended template for the Statements is set out in Appendix IV to this chapter.

Exemptions from Publication of AP and OC Announcement

6. Exemptions from publication of AP and OC Announcement are available for the following situations:

Confidential filing

(i) An applicant applying for (a) secondary listing under MB Rule 19C.05 or Criteria B under MB Rule 19C.05A; or (b) listing under MB Chapter 18A or 18C[2] is permitted to make a confidential filing of its AP at the time of filing its listing application.

(ii) For an applicant which has been listed on a Recognised Stock Exchange or applying for secondary listing under Criteria A under MB Rule 19C.05A (or an applicant which has been listed on a Recognised Stock Exchange applying for a primary listing on GEM), the Exchange will consider a request for confidential filing of the applicant's AP on a case-by-case basis.

(iii) An applicant making a confidential filing is (a) not subject to the publication requirements for its AP under MB Practice Note 22 (GEM Practice Note 5) unless requested by the Exchange or the SFC; and (b) not required to publish an OC Announcement under paragraph 17A of MB Practice Note 22 (paragraph 16A of GEM Practice Note 5). Instead, such applicant shall publish an OC Announcement on the same date as it publishes its PHIP pursuant to paragraph 18 of MB Practice Note 22 (paragraph 17 of GEM Practice Note 5) or otherwise as permitted by the Exchange from time to time.

(iv) The Exchange or the SFC may waive or modify the publication requirements for an AP or an OC Announcement. An applicant is encouraged to consult the Exchange or the SFC early if it envisages any difficulties in complying with the publication requirements. For example:

(a) Where the publication of these documents will conflict with the laws of the jurisdiction which the applicant is subject to or unduly prejudice an applicant's continuing listing status on an overseas exchange.

(b) If these documents contain price sensitive information on the applicant, its related listed parties and/or its financial instruments/derivatives listed on a Recognised Stock Exchange, or additionally, the applicant is also making a parallel confidential filing to a Recognised Stock Exchange and would like to maintain

[2] The SFC has formally consented to the new confidential filing option for Biotech Companies and Specialist Technology Companies pursuant to MB Rule 2.04. See the "Joint Announcement on Launch of Technology Enterprises Channel" published by the SFC and the Exchange on 6 May 2025.

		information parity between the two markets as long as there is no requirement by the Recognised Stock Exchange to disclose material information and confidentiality can be maintained.
Spin-off from an overseas listed parent		(i) The Exchange or the SFC will only consider a waiver from the publication requirements for an AP and/or an OC Announcement on a case-by-case basis, taking into account whether an applicant can generally satisfy one of the following requirements: (a) Under the applicable rules of its primary listing venue (e.g. safe harbour provisions), the applicant's application for listing in Hong Kong constitutes price-sensitive information to its overseas listed parent and the overseas listed parent is not required to disclose the applicant's listing in Hong Kong. The overseas listed parent undertakes to keep the applicant's application for listing in Hong Kong confidential before the issue of the PHIP; (b) Under the applicable rules of its primary listing venue, the AP contains price-sensitive information to the overseas listed parent and the overseas listed parent is entitled to keep the price-sensitive information confidential by redacting such information in the AP; and the extent of the proposed redactions will make the content of the AP meaningless; or (c) The overseas listed parent's jurisdiction or the relevant stock exchange on which it is listed has requirements or regulations that prohibit the overseas listed parent or the applicant from publishing a draft listing document relating to the spin-off.
Spin-off from a parent listed on the Exchange		(i) The Exchange or the SFC will only consider a waiver from the publication requirements for an AP or an OC Announcement on a case-by-case basis in light of the relevant application of the inside information requirements under Part XIVA of the SFO.

7. An applicant making a confidential filing must maintain confidentiality of its listing application until the publication of PHIP. Should there be any loss of confidentiality, the Exchange would take into account the relevant circumstances and may exercise the discretion to request the applicant to re-comply with the publication requirements for an AP and/or an OC Announcement. Factors to consider include reasons for and extent of the leakage, the materiality of the leaked information and whether the factors for permitting confidential filing in paragraph 6 above would remain applicable. An applicant that is requested by the Exchange to re-comply with the publication requirements shall publish the AP, and where applicable, the OC Announcement as if no confidential filing were allowed at the outset.

Publication of AP, OC Announcement, PHIP and Statements

8. The Publications and Statements must be submitted through HKEX-ESS[3] and will be published on a designated webpage of the Exchange's website ("**Designated Webpage**") in a straight-through manner once submitted through HKEX-ESS. The following table sets out the timing for publishing AP, OC Announcement and PHIP:

[3] HKEX-ESS is the Exchange's system to enable registered users to submit documents electronically to the Exchange.

	AP	OC Announcement	PHIP
When listing application is submitted[4]	✓	✓	×
When an applicant's directors conclude that the material comments raised by the Exchange have been addressed	×	×	✓
When an additional OC is appointed after submission of the listing application	×	✓[5]	×
When an OC is terminated after the submission of the listing application (or after the publication of the first OC Announcement for applicant allowed to make a confidential filing)	×	✓[6]	×

9. Sponsor must arrange on behalf of the applicant for publishing the Publications and Statements and take the following steps:

   (i) Register with the Exchange's Primary Market Information Team as a HKEX-ESS[7] user at least three business days before any submission. A user account will be assigned to each applying sponsor. If a sponsor is already a HKEX-ESS user, it can use its previously allocated user account to submit the Publications and Statements through the HKEX-ESS; and

   (ii) Request for activation of a company case number by submitting a request form as set out in Appendix V to this chapter at least one business day before the filing of the listing application, which should be on or after the "Earliest Filing Date" (i.e. two months from the date the last sponsor is formally appointed) stated in the "Acknowledgement of sponsor engagement notification and case number assignment" email. This sponsor should use this case number for submissions of all materials under the same application through HKEX-ESS.

   For CIS applicant

   (iii) Obtain a company case number from the Exchange (IPO Vetting Department) by filing a request form as set out in Appendix VI to this chapter at least one business day before the filing of the authorisation application. This specified case number must be used for all submissions under the same application.

10. Every Publication and Statement must be:

    (i) Prepared in both English and Chinese;

[4] Refers to the date on which the signed listing application form and all other documents required by the Listing Rules and in the prescribed format as set out in **Chapter 6.3** are submitted to the Exchange. The OC Announcement shall be submitted for publication immediately after the AP (or PHIP, where applicable) is submitted for publication.

[5] The OC Announcement shall be uploaded as soon as practicable after the appointment is made and in any event no later than the first business day after the appointment date (such appointment shall be no later than the 14th day after submission of the listing application).

[6] The OC Announcement shall be uploaded as soon as practicable after the termination takes place, and is expected to be published no later than the first business day after the termination date.

[7] See details of the registration process. Please contact HKEX-ESS hotline for any questions.

(ii) In a ready-to-publish electronic version; and

(iii) Submitted through HKEX-ESS of a file size equal to or less than 40MB and must not be in a compressed format (e.g. a "zip" file)[8].

11. The HKEX-ESS operation hours is from 6:00 a.m. to 11:00 p.m. on business days, and 6:00 p.m. to 8:00 p.m. on a non-business day that is immediately before a business day[9].

12. Priority is usually given to PHIPs as APs, OC Announcements and Statements do not have the same time pressure for publication. If a PHIP will be submitted on a day where HKEX-ESS service is unavailable, the applicant and its sponsor should consult the Exchange on whether any special arrangement can be made by no later than 2:00 p.m. on the business day before the submission day.

File Specifications

13. Every file comprising a Publication or Statement must adhere to the file specifications set out in the e-Submission System User Manual for Publication Related Matters[10].

14. A warning statement as set out in Appendix I to this chapter in English and Chinese contained in separate files must be submitted together with each of the publication of AP and OC Announcement. An applicant is not required to submit any warning statement for the posting of PHIP and Statement of the same application if there is no difference from the previously submitted version, although it is allowed to revise the warning statement from time to time as it considers appropriate.

15. Every AP and PHIP submitted must contain:

(i) A single file containing an AP or a PHIP with bookmarks to enable readers to navigate easily between chapters of the document; and

(ii) A multi-file of the same AP or PHIP divided into different chapters as in the recommended contents layout in Appendix VII to this chapter.

Publications on the Designated Webpage

16. The Publications and Statements are displayed at: New Listings – Application Proof, OC Announcements, PHIP and Related Materials and searchable by headline categories[11], year or consolidated excel index at the Designated Webpage. The Exchange will publish status marks and information on the Designated Webpage to indicate the status of each listing application in accordance with paragraph 21 of MB Practice Note 22 (paragraph 20 of GEM Practice Note 5).

[8] For file size exceeding 40MB, the documents must be split into separate files, each containing logical subsection within the specified limit, and the multiple files should be submitted in one submission. In addition to the split files, the applicant must submit a soft copy of the document in full version (i.e. in one file) on a CD-ROM as soon as possible after the document in multiple files format has been submitted for publication through ESS. Please call ESS hotline (+852 2840 3460) in advance for detailed arrangements. See also e-Submission System (ESS) Frequently Asked Questions.

[9] Usually closed on Saturdays for maintenance.

[10] Matters related to file specifications are included in Appendices C and G to the user manual (applicable to multi-file submission through CD ROM only). This user manual also provides relevant training materials on major HKEX-ESS user functions.

[11] See the section under "Headline Categories" under "Rules and Guidance" on the Exchange's website for further details.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 330

17. If a listing application is subsequently returned by the Exchange under MB Rule 9.03(3) (GEM Rule 12.09(2)), the AP and OC Announcement(s) will remain on the Designated Webpage until completion of all review procedures for the return decision, or the time for invoking such review has lapsed. All information relating to the applicant originally under the "*Active*" status mark on the Designated Webpage will be removed, and the Exchange's website will only publish the name of the applicant and its sponsor and the date of the return.

Guidance on Disclosure in a published AP or PHIP

18. Information is only redacted for the purpose of publication on the Exchange's website. Information in an AP published on the Designated Webpage and AP-Vetting should be the same, except for necessary redactions in the published AP to comply with applicable laws and regulations (see paragraph 2 above).

19. If the information is permitted to be omitted from the AP-Vetting (see **Chapter 6.2** for details), it should not be disclosed in the published AP.

20. Set out below are information that must be redacted from an AP or a PHIP publication. An applicant can request the Exchange to consider additional redactions by providing detailed reasons before submitting the listing application. Sufficient time should be allowed for the Exchange to consider the request.

Information must be redacted

Shareholdings and Reorganisation

(i) Interests of directors/chief executive/ substantial shareholders upon listing

(ii) MB Rule 10.07 (GEM Rule 13.16A) undertaking

(iii) Undertakings by any selling shareholder

Pro Forma Financial Information

(i) Unaudited pro forma adjusted net tangible assets

(ii) Unaudited adjusted pro forma forecast earnings per share

(iii) Letter on unaudited pro forma financial information relating to the offer

Corporate Information

(i) Identity and address of share registrar

Others[12]

(i) Cover

(ii) Expected Timetable

(iii) Information about the Listing Document and Global Offering

(iv) Cornerstone Investors

Offering Related Information

(i) Stock code

(ii) Number of offer shares

(iii) Offer price

(iv) Offer statistics

(v) Offer-related information, including discount of the pre-IPO investments to offer price, use of proceeds and number of shares to be repurchased upon listing

(vi) Identities of underwriters

(vii) Identities of legal advisers to underwriters

(viii) Salient terms of the underwriting agreement

(ix) Percentage of offer price of all the offer shares as commissions and expenses and the relevant amounts (e.g. commissions to OCs and underwriters)

(x) Information required under paragraph 3B of MB Appendix D1A (paragraph 3B of GEM Appendix D1A)

(xi) Activities by syndicate members

[12] Whole relevant section must be redacted or put in square brackets. For the avoidance of doubt, the section headings should be left in a published AP even where the content of the whole section is deleted.

Information must be redacted
(v) Structure of the Global Offering (vi) How to Apply for Hong Kong Offer Shares

21. To the extent practicable and except for offer-related information, bracketed or omitted information in a published AP (see paragraphs 9 and 10 of **Chapter 6.2** for details) should be updated or included upon the publication of the PHIP.

Appendix I – Minimum Warning Statement in a Dedicated Section of the Exchange's Website

Warning Statement

The documents which you will access by clicking the acceptance button below ("**these documents**") are being published by [the name of the new applicant] (the "**Company**") as required by The Stock Exchange of Hong Kong Limited/the Securities and Futures Commission under the Listing Rules. These documents should not be accessed by persons located in any jurisdictions where the provision of the following information may breach local securities law.

(This paragraph is applicable to an Application Proof and a PHIP only) Each of these documents is in draft form. The information contained in it is incomplete and is subject to change which can be material.

If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on the Company's [prospectus registered with the Registrar of Companies in Hong Kong] [offering circular authorised by the Securities and Futures Commission under Section 105 of the Securities and Futures Ordinance (Cap. 571)], copies of which will be published during the offer period.

The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission give no indication that the application to which these documents relate has been approved for listing and take no responsibility for the contents of the Company's information published on this website, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this information.

The Company, its sponsors, overall coordinators, advisers and members of the underwriting syndicate do not have any obligation or liability to its investors in relation to these documents except for the Company's obligation to submit these documents for publication on the Exchange's website.

I hereby declare that I am a resident of Hong Kong or I am not prohibited by any laws and regulations from gaining access to the new applicant's documents referred to in the above warning statement and I confirm that I have read the warning statement before proceeding to the next web page.

Viewer can choose to accept or not to accept the statement above*

* *This statement is provided by the Exchange for reference only.*

WYBOTICS EX1041
Wybotics v. Zodiac
Page 333

Appendix II – Minimum Disclaimer Statement on an Application Proof and a PHIP

1. Minimum Disclaimer Statement on the Front Page of an Application Proof and a Post Hearing Information Pack (PHIP)

The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of this [*Application Proof] [*PHIP], make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this [*Application Proof] [*PHIP].

[*Application Proof] [*Post Hearing Information Pack] of

[name of the new applicant] (the "**Company**")
(a company incorporated in [ ])

WARNING

The publication of this [*Application Proof] [*PHIP] is required by The Stock Exchange of Hong Kong Limited (the "**Exchange**")/the Securities and Futures Commission (the "**Commission**") solely for the purpose of providing information to the public in Hong Kong.

This [*Application Proof] [*PHIP] is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with the Company, its sponsor, overall coordinators, advisers or member of the underwriting syndicate that:

(i) This document is only for the purpose of providing information about the Company to the public in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this document;

(ii) The publication of this document or supplemental, revised or replacement pages on the Exchange's website does not give rise to any obligation of the Company, its sponsor, overall coordinators, advisers or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with the offering;

(iii) The contents of this document or supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual final listing document;

(iv) The [*Application Proof] [*PHIP] is not the final listing document and may be updated or revised by the Company from time to time in accordance with the Listing Rules;

(v) This document does not constitute a prospectus, offering circular, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities;

(vi) This document must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;

(vii) Neither the Company nor any of its affiliates, advisers or underwriters is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this document;

(viii) No application for the securities mentioned in this document should be made by any person nor would such application be accepted;

(ix) The Company has not and will not register the securities referred to in this document under the United States Securities Act of 1933, as amended, or any state securities laws of the United States;

(x) As there may be legal restrictions on the publication of this document or dissemination of any information contained in this document, you agree to inform yourself about and observe any such restrictions applicable to you; and

(xi) The application to which this document relates has not been approved for listing and the Exchange and the Commission may accept, return or reject the application for the subject public offering and/or listing.

If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on [the Company's prospectus registered with the Registrar of Companies in Hong Kong] [offering circular authorised by the Commission under Section 105 of the Securities and Futures Ordinance (Cap. 571)], copies of which will be published to the public during the offer period.

2. Warning Statement – There should be a prominent warning statement on each page of this document displayed on the Exchange's website stating that this document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed "Warning" on the cover of this document.

** delete as appropriate*

Appendix III – Minimum Disclaimer Statement on an OC Announcement

1. Minimum Disclaimer Statements in the OC Announcement

(i) The Stock Exchange of Hong Kong Limited (the "**Exchange**") and the Securities and Futures Commission take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

(ii) By viewing this announcement, you acknowledge, accept and agree with [●] (the "**Company**"), its sponsor, overall coordinators, advisers or member of the underwriting syndicate that:

(a) The publication of this announcement on the Exchange's website does not give rise to any obligation of the Company, its sponsor, overall coordinators, advisers or members of the underwriting syndicate to proceed with an offering or a placing in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with the offering or the placing;

(b) The application to which this announcement relates has not been approved for listing and the Exchange and the Commission may accept, return or reject the application for the subject public offering and/or listing;

(c) This announcement must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;

(d) Neither the Company nor any of its affiliates, its advisers or the members of the underwriting syndicate is offering, or is soliciting offers to subscribe for or purchase, any securities in any jurisdiction through the publication of this announcement;

(e) This announcement (and the information contained herein) is for information purposes only and shall not constitute or form part of any offer to issue or sell, or the solicitation of any offer to purchase, subscribe for or otherwise acquire, any securities of the Company in the United States (including its territories and possessions, any state of the United States and the District of Columbia) or any other jurisdiction where such offer or sale would be unlawful. The Company believes it is a "foreign private issuer" (**"FPI**"), as such term is defined in Rule 405 under the US Securities Act of 1933, as amended (the "**US Securities Act**"), and intends to conduct its business so far as possible to maintain its status as a FPI. The securities of the Company (the "**Securities**") have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered, sold, resold, pledged, transferred or delivered, directly or indirectly, into or within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any relevant state or other jurisdiction of the United States. There has been and will be no public offering of the Securities in the United States;

(f) If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on [the Company's prospectus registered with the Registrar of Companies in Hong Kong] [offering circular authorised by the Commission under Section 105 of the

Securities and Futures Ordinance (Cap. 571)], copies of which will be published during the offer period;

(g) This announcement does not constitute a prospectus, offering circular, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities; and

(h) As there may be legal restrictions on the publication of this announcement or dissemination of any information contained in this announcement, you agree to inform yourself about and observe any such restrictions applicable to you.

2. The OC Announcement shall contain the following statement:

This announcement is made by the order of the Company. The Company's board of directors collectively and individually accept responsibility for the accuracy of this announcement.

- -

Note: The new applicant must ensure that the OC Announcement does not (i) include information that will constitute a prospectus under section 2(1) of the C(WUMP)O; or an advertisement under section 38B(1) of the C(WUMP)O; or an invitation to the public in breach of section 103(1) of the Securities and Futures Ordinance as amended from time to time (Cap. 571), (ii) discusses the new applicant's proposed issue of securities; or (iii) promotes its securities to be issued or its listing.

Appendix IV – Recommended Template for the Statements

*"This announcement is a statement made under [*MB Rule 9.08(2)(c)/GEM Rule 12.10(2)(c)] (Note)*

*We noted [source of media reports] on [date] subsequent to the publication of the [*Application Proof/OC Announcement/PHIP] on [date]. No reliance should be placed on the [media reports identified].*

*The publication of the [*Application Proof/OC Announcement/PHIP] and this document is only for the purpose of providing information about the Company and not for any other purposes. No investment decision should be based on the information contained in [*Application Proof/OC Announcement/PHIP] or this announcement.*

This announcement does not constitute a prospectus, offering circular, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction. It is also not an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

This announcement is made by the order of the Company. The Company's Board of Directors collectively and individually accept responsibility for the accuracy of this announcement."

– –

Note: The new applicant must ensure that the statement does not (i) include information that will constitute a prospectus under section 2(1) of the C(WUMP)O; or an advertisement under section 38B(1) of the C(WUMP)O; or an invitation to the public in breach of section 103(1) of the Securities and Futures Ordinance as amended from time to time (Cap. 571), (ii) discusses the new applicant's proposed issue of securities; or (iii) promotes its securities to be issued or its listing.

** delete as appropriate*

Appendix V – Company Case Number Activation Request Form

Please send this form to ipoteamadmin@hkex.com.hk with email subject "Company Case Number Activation Request" at least one business date before the submission of listing application form and Application Proof through ESS.

HKEX
香港交易所

香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)
THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

CN001

COMPANY CASE NUMBER ACTIVATION REQUEST

Date of Request*	DD MM YYYY
Company Case Number[1]*	e.g. 202XXXXX-IXXXXX-XXXX
I. Subject Matter* ☐ **For initial listing application** ☐ **For renewal of application** **Filing date of the latest application:** DD MM YYYY	
II. New Listing Applicant information*	
Name of applicant (in English):	Input the English name of the applicant
Name of applicant (in Chinese)[2]:	Input the Chinese name of the applicant
Former name of applicant, if applicable (in English)[3]:	Input the English name of the applicant
Former name of applicant, if applicable (in Chinese)[3]:	Input the Chinese name of the applicant
Board of listing:	Choose an item
Other listing information (can choose more than one item):	☐ Weighted Voting Rights ☐ Biotech ☐ Special Purpose Acquisition Company ☐ Successor Company ☐ Specialist Technology – Commercial Company ☐ Specialist Technology – Pre-Commercial Company ☐ Secondary Listing under Ch.19C ☐ Dual-Primary Listing ☐ None of the above
Expected submission date of listing application:	DD MM YYYY

III. Sponsor information*	
Name of sponsor(s):	Input the name of Sponsor
Project email(s)[4]:	Input the email address
Contact person and telephone[5]:	Input the name and phone number of the contact person
IV. Other Sponsor information (where applicable)	
Name of sponsor(s):	Input the name of Sponsor
Project email(s)[4]:	Input the email address
Contact person and telephone[5]:	Input the name and phone number of the contact person
Name of sponsor(s):	Input the name of Sponsor
Project email(s)[4]:	Input the email address
Contact person and telephone[5]:	Input the name and phone number of the contact person
Name of sponsor(s):	Input the name of Sponsor
Project email(s)[4]:	Input the email address
Contact person and telephone[5]:	Input the name and phone number of the contact person

Notes:
* All fields under this section are mandatory.

1. Upon the receipt of Sponsor Engagement and Sponsor-overall coordinator Notification (SE001) e-Form, the Exchange will assign a Company Case Number to the IPO applicant for submission of listing application and Application Proof through e-Submission System (ESS). The case number is quoted in the email subject of “Acknowledgement of sponsor engagement notification and Case Number Assignment”. Please input such case number in this form for the purpose of case activation in ESS at least one business day before the submission of listing application.
2. Input N/A if the applicant does not have a Chinese name.
3. Applicable when (i) the name of the applicant is different from the name stated in the Sponsor Engagement and Sponsor-overall coordinator Notification (SE001) e-Form; or (ii) the name of the applicant has changed from its previous application.
4. Input the project emails in this field.
5. This is used for communication with IPO Management Operations Team on case number and document submission matters only.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 340

Appendix VI – Company Case Number Request Form for Collective Investment Scheme

香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)
THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

CN001 (CIS)

COMPANY CASE NUMBER REQUEST FORM
LISTING APPLICATIONS FOR COLLECTIVE INVESTMENT SCHEME ("CIS")

Date of Request*	DD MM YYYY
I. Subject Matter* ☐ **For initial listing application** ☐ **For renewal of application** **Filing date of the latest application:** DD MM YYYY	
II. New Listing Applicant information*	
Name of applicant (in English):	Input the English name of the applicant
Name of applicant (in Chinese)[1]:	Input the Chinese name of the applicant
Where applicable:	
(a) Name of sub-fund (in English):	Input the English name of the sub-fund
Name of sub-fund (in Chinese)[1]:	Input the Chinese name of the sub-fund
(b) Name of sub-fund (in English):	Input the English name of the sub-fund
Name of sub-fund (in Chinese)[1]:	Input the Chinese name of the sub-fund
(c) Name of sub-fund (in English):	Input the English name of the sub-fund
Name of sub-fund (in Chinese)[1]:	Input the Chinese name of the sub-fund
Please insert additional rows for more sub-fund(s)	
Types of CIS:	☐ Exchange Traded Funds ("ETF") ☐ Real Estate Investments Trusts ("REITS") ☐ Other unit trusts /mutual funds, please specify: _____
Expected submission date of listing application:	DD MM YYYY

Date/Expected date of SFC's no comment confirmation on CIS Disclosure Document:	DD MM YYYY
III. Listing agent information*	
Name of listing agent:	Input the name of listing agent
Contact email(s)[2]:	Input the email address
Contact person and telephone[3]:	Input the name and phone number of the contact person
IV. Other Listing agent's information (where applicable)	
Name of listing agent(s):	Input the name of listing agent
Contact email(s)[2]:	Input the email address
Contact person and telephone[3]:	Input the name and phone number of the contact person

Notes:
* All fields under this section are mandatory.
1. Input N/A if the applicant does not have a Chinese name.
2. Input the project emails if any.
3. This is used for communication with IPO management Operations Team on case number and document submission matters only.

Appendix VII – Recommended Content Layout of an Application Proof and a PHIP

(Some sections/chapters may not be applicable to a new applicant and therefore would not be expected to be included)

Sections/Chapters
Warning statement (see Appendix II to this chapter for sample language)
Cover
Important
Expected timetable
Contents
Summary
Definitions and glossary
Forward-looking statements
Risk factors
Waivers and exemptions from strict compliance with the Listing Rules
Information about the listing document and any global offering
Directors, supervisors and parties involved in the global offering
Corporate information
Industry overview
Regulations
History, development and reorganisation
Business
Financial information
Relationship with controlling shareholders
Connected transactions
Share capital
Substantial shareholders
Cornerstone Investors
Directors, senior management and employees
Future plans and use of proceeds
Underwriting
Structure of the global offering
How to apply for Hong Kong offer shares
Appendix I – Accountants' report
Appendix II – Unaudited pro forma financial information
Appendix III – Profit forecast
Appendix IV – Property valuation report
Appendix V – Other expert reports
Appendix VI – Summary of the new applicant's constitution, law of the place of incorporation and information on its dual primary listing
Appendix VII – Statutory and general information
Appendix VIII – Documents delivered to the Registrar of Companies and available on display

6.5 ARRANGEMENTS FOR C(WUMP)O EXEMPTION APPLICATIONS

1. This chapter provides guidance on seeking certificates of exemptions from the prospectus requirements of the C(WUMP)O.

Prospectus Exemptions from the C(WUMP)O

2. The SFC has power to issue certificates of exemption from compliance with the relevant provisions of the C(WUMP)O (the "**CO Exemption**") listed in paragraph 3 below if it considers:

   (i) The exemption will not prejudice the interest of the investing public; and

   (ii) Strict compliance with those requirements would be irrelevant or unduly burdensome; or is otherwise unnecessary or inappropriate.

3. The following are the relevant provisions of the C(WUMP)O that may be exempted:

For Hong Kong Incorporated Companies (Section 38A)	(i) Sections 38(1), (1A), (3) or (7), 38D(3) or (4), 42(1) or (4), 44A(1), (2) or (6) or 44B(1) or (2); or (ii) Part 1 of the Twentieth Schedule or Part 1 of the Twenty-first Schedule.

For Overseas Incorporated Companies (Section 342A)	(i) Sections 44A(1), (2) or (6), 44B(1) or (2), 342(1), (2A), (3) or (7) or 342C(3) or (4); or (ii) Part 2 of the Twentieth Schedule or Part 2 of the Twenty-first Schedule.

4. While the SFC has the ultimate authority to decide whether the CO Exemption will be granted, applications for such exemption are routed through the Exchange. The Exchange gives recommendation for the grant of the CO Exemption to the SFC relating to the prospectus for shares approved to be listed in Hong Kong.

Administrative Practices

5. An applicant should submit a written application for the CO Exemption, with basis, as early as possible.

6. If the application for the CO Exemption meets the relevant statutory conditions, the SFC will grant the CO Exemption on or before the date of finalisation of the prospectus (including a replacement prospectus ("**Replacement Prospectus**") and an addendum to the original prospectus ("**Addendum**")).

7. In connection with the granted CO Exemption, an applicant should disclose the relevant details of the CO Exemption in the "Waivers and Exemptions from Compliance with the Listing Rules and/or C(WUMP)O" section of the prospectus or the Replacement Prospectus (as the case may be). Except that in the case of issuing an Addendum, the required information should be disclosed in a relevant place within the Addendum.

8. Sections 38A(6) and 342A(6) of the C(WUMP)O require the SFC to publish online the particulars of the CO Exemption granted. To facilitate such publication, an applicant should submit the following documents to the Exchange for onward forwarding to the SFC on the day the prospectus is submitted for authorisation:

   (i) A copy of the prospectus with wordings marked on a cover page:

   To be forwarded to the Commission for use for the sole purpose of sections 38A(6) and 342A(6) of the C(WUMP)O and embargoed for other purposes; and

   (ii) Two separate PDF files, in English and Chinese, containing all information on the CO Exemption:

      (a) PDF file under the file name "Cover" – the inside cover page or first page of the prospectus; and

      (b) PDF file under the file name "Exemptions" – extracted pages of the CO Exemption applied for.

Subsequent Amendments to Prospectus

9. MB Rule 11.13 (GEM Rule 14.24) requires an applicant to give the Exchange a supplemental listing document if, before commencement of dealings in an applicant's securities, the applicant becomes aware of:

   (i) A significant change, which affects any matter contained in the listing document (e.g. reduction in offer price beyond the situation contemplated under **Chapter 4.14** of this Guide, major development of a litigation case); or

   (ii) A significant new matter, which would have been required to be disclosed in the listing document if it had arisen before the listing document was issued.

10. An applicant may supplement or amend information in a prospectus registered under the C(WUMP)O by (i) replacing the original prospectus with a Replacement Prospectus; or (ii) issuing an Addendum. For the purposes of the Twentieth Schedule of the C(WUMP)O, an Addendum should be read with the original prospectus.

11. As the Replacement Prospectus or the Addendum also constitutes a prospectus under the Twentieth Schedule to the C(WUMP)O, applicants must ensure that the Replacement Prospectus or the Addendum:

   (i) Is duly authorised for issue by the Exchange and registered with the Registrar of Companies; and

   (ii) Contains appropriate warning statements[1].

12. Further, where an Addendum is proposed to be issued, the applicant should consider the need to apply for various CO Exemptions and more specifically from relevant content requirements in the Third Schedule to the C(WUMP)O.

13. Where the CO Exemption is sought for a Replacement Prospectus or an Addendum, the applicant should follow the requirements set out in paragraphs 5 to 8 above.

[1] See Part 4 and Part 5 of the Eighteenth Schedule to the C(WUMP)O for content requirements for the warning statements.

6.6 PROSPECTUS AUTHORISATION AND REGISTRATION

1. This chapter provides guidance on the manner in which documents must be electronically delivered to the Exchange for an application for authorisation of the registration of a prospectus in accordance with the Listing Rules and the C(WUMP)O.[1]

2. Applicants issuing prospectuses and their advisers are strongly advised to review the requirements as listed out in this chapter and in the relevant laws and regulations and ensure that the application for authorisation for registration of the prospectus, the prospectus, its related application forms and other accompanying documents delivered to the Exchange for authorisation of registration are duly prepared in accordance with those requirements.

Relevant Listing Rules and Legislation

3. MB Rule 9.11(33) (GEM Rule 12.25(2)) provides that in cases where a listing document constitutes a prospectus under the C(WUMP)O, the following documents must be submitted to the Exchange by 11 a.m. on the intended date of authorisation of registration of the prospectus:

   (i) An application for authorisation for registration of the prospectus under section 38D(3) or section 342C(3) of the C(WUMP)O (as the case may be);

   (ii) Two copies of the prospectus, duly signed[2] in accordance with section 38D(3) or section 342C(3) of the C(WUMP)O and having endorsed thereon or attached thereto the documents required under the relevant section; and

   (iii) In respect of every Chinese translation of the prospectus, a certificate issued by the translator certifying that the Chinese translation of the English version of the prospectus is true and accurate; or in respect of an English translation of the prospectus, a certificate issued by the translator certifying that the English translation of the Chinese version of the prospectus is true and accurate; and in either case, a certificate issued by a competent officer of the sponsor certifying that the translator is competent to give translations on prospectus documents.

4. Note to MB Rule 2.07(3A) (GEM Rule 2.21) states that, in respect of documents submitted to the Exchange for the purpose of the authorisation of the registration of a prospectus, they must be submitted in the manner and via the means prescribed by the C(WUMP)O and any related guidance materials published from time to time.

5. Under the C(WUMP)O[3], a prospectus to be submitted for the purpose of seeking authorisation of the registration of a prospectus must be an *original* copy signed by such persons as required under section 38D(3) or section 342C(3) of the C(WUMP)O (as the case may be) ("**Designated Signatories**"), while other documents ("**Accompanying Documents**") to be endorsed on or

[1] For the avoidance of doubt, this includes listing documents relating to debt securities which must be registered in accordance with the C(WUMP)O and, pursuant to MB Rules 24.15 and 25.01 (GEM Rule 28.17 and 29.01), are subject to the procedures for authorisation for registration set out in MB Chapter 11A (GEM Chapter 15) and MB Rule 9.11(33) (GEM Rule 28.15).

[2] For the purpose of this chapter, the term "*signed*" in respect of the "signing" of a prospectus refers to, as the case may be: (i) the act of signing by every director or proposed director of the company or by his agent authorised in writing under section 38D(3) of the C(WUMP)O; or (ii) the act of certifying by two members of the governing body of the company or by their agents authorised in writing, as envisaged under section 342C(3) of the C(WUMP)O. See further information in paragraph 5.

[3] Sections 38D and 342C of the C(WUMP)O.

attached to the prospectus to be registered may be *originals* or *certified* copies (certified as true copies by persons recognised under section 39C(b) or section 342CC(b) of the C(WUMP)O (as the case may be) ("**Approved Certifier**")[4]).

6. The Electronic Transactions Ordinance (Cap. 553) ("**ETO**") establishes a framework under Hong Kong law for the recognition of electronic records[5] and signatures, giving them the same legal status as their paper counterparts. Under the ETO[6], where a rule of law requires the signature of a person on a document, an electronic signature or, in the case where a Government entity is involved, a digital signature (as defined in the ETO) of that person satisfies such requirement.

Guidance

7. A prospectus, its related application forms and its Accompanying Documents[7] to be submitted for the purpose of seeking authorisation of the registration of a prospectus pursuant to the C(WUMP)O must be submitted to the Exchange in electronic form.

8. Digital signatures must be used for: (i) signing[2] the original copies of the prospectus, its related application forms, and any Accompanying Documents[7] (if the original Accompanying Document is submitted); and (ii) certifying a copy of any Accompanying Document as a true copy[8] (if a certified copy of the Accompanying Document is submitted).

9. A digital signature must be supported by a recognized certificate, generated within the validity of that certificate and used in accordance with the terms of that certificate ("**Recognised Digital Signature**"). The terms "*recognized certificate*" and "*within the validity of that certificate*" shall have the meanings ascribed to them under the ETO. The following certification authorities in Hong Kong are recognised for issuing digital certificates:

   (i) The Postmaster General (Hongkong Post Certification Authority) issues recognised digital certificates under the brand name of "e-Cert"[9];

   (ii) Digi-Sign Certification Services Limited issues digital certificates with the brand name of "ID-Cert"[10].

[4] The persons recognised under sections 39C(b) and 342CC(b) of the C(WUMP)O are: (i) a director (or a member of the governing body of the company) or the company secretary of the company or an agent of the director (or a member of the governing body of the company) or the company secretary authorised in writing for the purpose by the director (or such member) or company secretary; (ii) a solicitor within the meaning of section 2(1) of the Legal Practitioners Ordinance (Cap 159) or a certified public accountant within the meaning of section 2 of the Professional Accountants Ordinance (Cap 50); and (iii) a notary public within the meaning of section 2(1) of the Legal Practitioners Ordinance (Cap 159).

[5] An "electronic record" is defined under the ETO to mean a record generated in digital form by an information system, which can be (i) transmitted within an information system or from one information system to another; and (ii) stored in an information system or other medium.

[6] Section 6 of the ETO.

[7] These documents include items 2 to 8 set out in Appendix I to this chapter. Pursuant to section 3 of and Schedule 1 to the ETO, powers of attorney are excluded from the application of the relevant sections of the ETO. Accordingly, powers of attorney cannot be executed by digital signature and shall be executed following appropriate wet ink procedures in accordance with applicable laws. Thus, no original power of attorney may be delivered in electronic form but copies of powers of attorney certified as true copies by Approved Certifiers' personal Recognised Digital Signatures may be delivered in electronic form for seeking authorisation and registration.

[8] A scanned copy of a physical record bearing a physical signature will not be accepted nor will an electronic record bearing just an electronic signature that does not meet the requirements of this chapter.

[9] See Hongkong Post e-Cert - Types of e-Cert for further details.

[10] See Digi-Sign Certification Services Limited (dg-sign.com) for further details.

10. To apply for the authorisation of the registration of prospectus, an applicant (or its adviser) must submit, by email,[11] to the Exchange by 11 a.m. on the intended date of authorisation of the prospectus:[12]

    (i) An original copy of the prospectus, together with originals of its related application forms, signed[2] by the Designated Signatories using their Recognised Digital Signatures;

    (ii) Original Accompanying Documents[7] signed by the relevant authorised signatories using their Recognised Digital Signatures, or copies of the Accompanying Documents certified as true copies by Approved Certifiers with their Recognised Digital Signatures; and

    (iii) Where a prospectus or a related application form is signed by an authorised person by virtue of a power of attorney or any other authority:

        (a) a copy of each power of attorney certified as true copy by an Approved Certifier with his Recognised Digital Signature; or

        (b) each original authority signed by the relevant signing party with Recognised Digital Signature or a copy thereof certified as true copy by an Approved Certifier with his Recognised Digital Signature;

    provided that in case only a certified copy of any document has been submitted as aforesaid, the applicant (or its adviser) must, upon demand by the Exchange if it thinks fit, produce the original to the Exchange for inspection.

11. To grant an authorisation for registration of a prospectus, the Exchange will send the applicant (or its adviser), by email, a certificate of authorisation, the prospectus and its related application forms each signed by the Exchange with its own Recognised Digital Signature together with the Accompanying Documents authorised by the Exchange.

12. The applicant (or its adviser) should forward the email(s) and the attachments it receives from the Exchange (as set out in paragraph 11 above), by email, to the Companies Registry for registration together with: (i) evidence of payment of the required registration fee; and (ii) a statement in each email confirming to the Registrar of Companies that documents attached to the email so forwarded to the Companies Registry are documents issued or authorised by the Exchange for registration of prospectus and they have not been altered, substituted or otherwise modified subsequent to the issue of the Exchange's authorisation for registration.

13. Appendix I to this chapter sets out documentary requirements in full. Appendix II to this chapter contains a diagram illustrating the prospectus authorisation and registration workflow.

[11] The email(s) should be sent to the relevant team email of the IPO Vetting Department of the Exchange. The subject of the email(s) should contain the relevant information set out as follows: *"[COMPANY NAME] (Applicant Code: [CODE]) - ([CASE NUMBER])* | *Prospectus Registration Documents*". Each email should not exceed a message size of 25MB and, if necessary, multiple emails may be used to send in the document bundle.

[12] All documents submitted to the Exchange for application of authorisation of registration of prospectus must be submitted in PDF, in a searchable and printable format; and in a file type, mode and setting that enables the Exchange to verify the digital signatures on the document and (in respect of a prospectus and its related application forms) apply the Exchange's digital signature to the document. Each digital signature must have a text statement inserted adjacent to the signature block which sets out the name and capacity of the signatory as follows: "*[D]igitally signed by [FULL NAME OF THE SIGNATORY AS PER GOVERNMENT ISSUED IDENTIFICATION DOCUMENT], [CAPACITY e.g. director, or authorised agent / attorney of [name of the person authorising or the donor of power]]".* If certification wording in respect of a certification by a signatory is required to be set out in a document, such certification wording should be inserted as a text statement adjacent to the signature block of the related digital signature.

14. Under section 32 of the Companies Ordinance, the Registrar of Companies may, in relation to any document required or authorised to be delivered to the Registrar of Companies under the C(WUMP)O, specify the requirements as to the authentication of the document or the manner of delivery of the document. Market participants are encouraged to also refer to the latest Gazette notice and circular published by the Registrar of Companies from time to time for details of the latest requirements in relation to the delivery of prospectus and Accompanying Documents to the Companies Registry for registration as specified by the Registrar of Companies.

Appendix I – Documentary Requirements for Prospectus Authorisation and Registration[13]

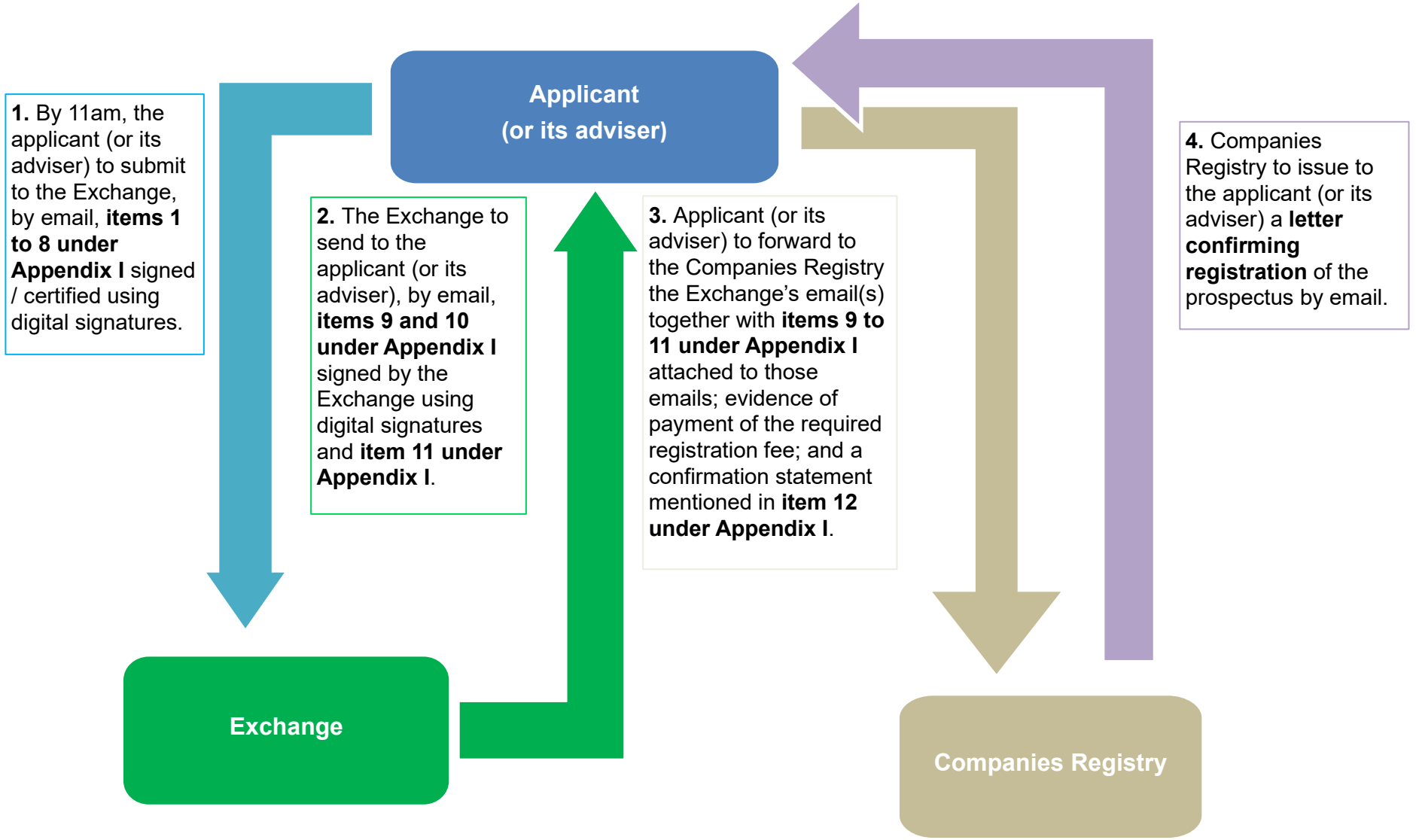
Action	Relevant Documents	Signing Party	Digital Signature Requirements
Prospectus Authorisation			
1. The applicant (or its adviser) to submit the documents for authorisation of registration of prospectus by email to the Exchange	Prospectus and related application forms	Designated Signatories	Signed by Designated Signatories using their personal Recognised Digital Signatures
2.	Power of Attorney	Donor of the power	In the case of originals *(only for an authority other than a power of attorney)*: • Signed by the relevant signing parties using their organisational/personal (as the case may be) Recognised Digital Signatures In the case of certified copies *(for both power of attorney and other authority)*: • Certified by an Approved Certifier[14] using personal Recognised Digital Signature of the Approved Certifier
	Other authority (i.e. any authority other than a power of attorney)	Signing parties of the authority	
3.	Translator Certificate	Translator	In the case of originals: • Signed by the relevant signing parties using their organisational/personal (as the case may be) Recognised Digital Signatures In the case of certified copies: • Certified by an Approved Certifier using personal Recognised Digital Signature of the Approved Certifier
4.	Translator Competency Certificate	Sponsors	
5.	Expert consent letters[15]	Experts	
6.	Material contracts[16]	Signing parties of the material contracts	

[13] Please refer to the C(WUMP)O for further details on requirements on prospectus authorisation and registration.
[14] The Approved Certifier certifying a copy of a power of attorney or an authority as a true copy should not be the donee of that power of attorney or the authorised agent under that authority.
[15] Section 38D(3)(a)/section 342C(3)(a) of the C(WUMP)O.
[16] Section 38D(3)(b)(i)/section 342C(3)(b)(i) of the C(WUMP)O.

Action		Relevant Documents	Signing Party	Digital Signature Requirements
7.		A list of the name(s), description(s) and address(es) of the vendor(s) of the sale shares[17], if any	N/A[18]	
8.		Statement of adjustments made by the reporting accountant,[19] if any	Reporting accountant	
Authorisation of Registration and Registration of Prospectus				
9.	The Exchange to send email(s) attaching the authorised documents and certificate of authorisation to the applicant (or its adviser)	Certificate of Authorisation	The Exchange	Signed by the Exchange using the Exchange's organisational Recognised Digital Signature
10.		Prospectus and related application forms	The Exchange	Signed by the Exchange using the Exchange's organisational Recognised Digital Signature
11.		Accompanying Documents	N/A	N/A
12.	The applicant (or its adviser) to forward to the Companies Registry the email(s) (with the documents attached) from the Exchange together with evidence of payment of the required registration fee and a confirmation statement as set out in paragraph 12 of this chapter	N/A	N/A	N/A
13.	Companies Registry to send to the applicant (or its adviser) by email a letter confirming registration of the prospectus	Confirmation letter	Registrar of Companies	N/A

[17] Section 38D(3)(b)(ii)/section 342C(3)(b)(ii) of the C(WUMP)O.
[18] No signature requirement for this document.
[19] Section 38D(3)(b)(iii)/section 342C(3)(b)(iii) of the C(WUMP)O.

Appendix II – Workflow for Electronic Submission of Prospectus and Accompanying Documents for Authorisation and Registration



Annex A – Listing Decisions

Annex A.1 Trading Record and Financial Eligibility

Applicant	Background and Decision
Company A *(MB applicant) (2015)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company A was a money lender. It systemically failed to comply with certain lending restrictions throughout the track record period and up to the LPD, which constituted a material non-compliance. Pursuant to the consent (the "**Consent**") of the local government authority, Company A would be allowed to enjoy relaxed lending restrictions after listing. However, Company A appeared to be the only company given such preferential treatment and no compelling reason was provided therefor. Further, it was unclear as to whether the Consent would be challenged by a higher government authority. 2. Company A could not meet the minimum profit requirement under MB Rule 8.05(1)(a) if the profits generated from the non-compliant business during the track record period were excluded. 3. In light of the systemic non-compliant practices above, Company A had not demonstrated that its directors had the integrity, competence and required level of skill, care and diligence required under MB Rules 3.08 and 3.09. *Decision* 4. The listing application was rejected due to inability to meet MB Rule 8.05(1)(a), material non-compliance and failure to demonstrate directors' suitability. A demonstration period of 18 months (from the date of Company A's latest audited accounts) was imposed on Company A to demonstrate its ability to operate satisfactorily in full compliance with the amended lending restrictions.
Company B *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company B manufactured and sold consumer products. Its plant in Mainland China was crucial to its business but had title defect. It therefore did not comply with GEM Rule 11.19 which required any applicant not being a property company or an infrastructure company, where its PRC property was otherwise significant to its activities, to have a long-term title certificate to its property. 2. Company B could not meet the minimum cash flow requirement under GEM Rule 11.12A(1) after adjusting for, among other things, a one-off income, the waived directors' emoluments and the waived rental of the plant (which was owned by the controlling shareholder), which were items that did not arise in the ordinary and usual course of business. 3. There were also concerns over the sustainability of Company B's business in light of (i) the unpredictable non-recurring nature of sales as there had been less than ten transactions during the track record period; (ii) the deteriorating financial performance – decreasing net profit and net profit margin during the track record period for which Company B failed to provide the relevant reasons; and (iii) insufficient disclosure of Company B's future plans and prospects in light of the austerity measures by the local government which directly affected Company B's targeted customers.

Applicant	Background and Decision
	4. In addition, four out of five executive directors only acquired relevant experience in the business after joining Company B. *Decision* 5. The listing application was rejected due to Company B's inability to meet GEM Rule 11.12A, failure to comply with GEM Rule 11.19, unsustainable business model and failure to demonstrate directors' suitability.
Company C *(MB applicant) (2016)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company C provided services in the construction industry. During the track record period, Company C undertook projects that exceeded the permitted scope of its qualification ("**Permitted Scope**") and its main operating subsidiaries also did not comply with the work safety licence requirement until shortly before the date of listing application, which constituted material non-compliances. 2. Company C could not meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding the profit generated from the non-compliant business during the track record period. 3. Further, Company C's directors had been aware of the breaches of the Permitted Scope before the track record period, but Company C continued to enter into new contracts that exceeded the Permitted Scope during the track record period. The directors were also aware that Company C was in breach of the work safety licence requirement but allowed Company C to carry on its business without such licences during most of the track record period. As such, Company C had not demonstrated that its directors had the integrity, competence and required level of skill, care and diligence required under MB Rules 3.08 and 3.09. *Decision* 4. The listing application was rejected due to Company C's inability to meet MB Rule 8.05(1)(a), material non-compliances and failure to demonstrate directors' suitability.
Company D *(MB applicant) (2017)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company D was a financial services provider in Mainland China. Under the relevant laws and regulations, operation of Company D's largest business segment (accounting for over 90% of Company D's total net profit) was subject to licensing. However, Company D did not obtain such licence and the relevant income was considered as generated from non-compliant sources. 2. Company D could not meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding the income from non-compliant sources. *Decision* 3. The listing application was rejected due to Company D's inability to meet MB Rule 8.05(1)(a).

Applicant	Background and Decision
Company E *(MB applicant) (2017)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company E was a logistics company in Mainland China. During the track record period, Company E's operating expenses were partly financed by an interest-free loan from its controlling shareholder ("**Shareholder's Loan**"). As the Shareholder's Loan was interest-free, it was not on normal commercial terms. 2. Company E could not meet the minimum profit requirement under MB Rule 8.05(1)(a) after imputing notional interest expenses on the Shareholder's Loan. *Decision* 3. The listing application was rejected due to Company E's inability to meet MB Rule 8.05(1)(a).
Company F *(MB applicant) (2017)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company F was a microcredit company in Mainland China. During the track record period, certain loans and guarantees provided by Company F to its customers did not follow local policies applicable to microcredit companies. Although such policies were not mandatory, Company F's business licence would be subject to revocation if such policies were not followed. In light of such potential consequences, the Exchange considered that these policies should have been followed as a matter of best practice. 2. In addition, the amount of such non-compliant loans was material (constituting 62% to 99% of the gross amount of total loans granted during each year of the track record period) and Company F could not meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding income from such non-compliant loans. *Decision* 3. The listing application was rejected as Company F was not able to meet MB Rule 8.05(1)(a) had it followed the local policies, thus with most interest income during the track record period excluded.
Company G *(GEM applicant) (2017)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company G was a restaurant operator in Mainland China. During the track record period, a significant portion of Company G's income was derived from unconditional grants from local government which were not directly related to its restaurant business. As such, the grants were not derived from Company G's ordinary and usual course of business, and it could not meet the minimum cash flow requirement under GEM Rule 11.12A(1) after excluding such grants. 2. Company G's financial performance was also deteriorating during the track record period as it failed to manage the impact of the increase in operating costs. Despite the implementation of cost-saving measures (such as a centralised kitchen) in the last year of the track record period, the deteriorating trend continued and management failed to demonstrate that it had the ability to turn around the business after the track record period.

Applicant	Background and Decision
	Decision 3. The listing application was rejected due to Company G's inability to meet GEM Rule 11.12A(1) and unsustainable business model.
Company H *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company H had previously been suspended trading and sought to resume trading through the acquisition of another company, which was involved in the development and sale of residential and commercial properties in Mainland China (the "**Target Group**"). 2. Prior to the track record period, the Target Group had received a one-off government subsidy for use in the development and operation of a training institute. However, demand for the training institute fell short of expectations and the Target Group sold some of the buildings that form part of the training institute to a third party and recognised a gain on this disposal ("**Disposal Gain**"). The government subsidy and the Disposal Gain were recorded as "Other Income"/"Other Gains and Losses" and did not arise from the Target Group's ordinary and usual course of business. 3. Company H could not meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding the Disposal Gain. *Decision* 4. The listing application was rejected due to Company H's inability to meet MB Rule 8.05(1)(a).
Company I *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company I was a specialty chain store retailer selling apparel and houseware products in Malaysia. In addition to its retail sales income, Company I also generated rental income not in its ordinary and usual course of business. 2. Company I could not meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding the rental income and relevant costs for its investment properties. *Decision* 3. The listing application was rejected due to Company I's inability to meet MB Rule 8.05(1)(a).

Annex A.2 Management Continuity

Applicant	Background and Decision
Company A *(MB applicant) (2005)* Rule reference: MB Rule 8.05(1)(b); Paragraph 2 of MB Practice Note 3	*Background* 1. Shareholder X replaced Shareholder Y as the major shareholder of Company A in the first year of the trading record period. The change in ownership had also caused major changes in the composition of the board of directors. 2. Mr. Q, a director of Company A, had been responsible for the business, strategy and operational management of Company A during the trading record period and up to the time of listing (the "**Relevant Period**"). Except for Mr. Q, no other director had remained on the board throughout the Relevant Period. 3. At the second tier of management, an identified group of senior officials (the "**Management Committee**") remained largely unchanged throughout the Relevant Period. The Management Committee had been responsible for the daily management of Company A, including carrying out the decisions of the board conveyed through Mr. Q. 4. Apart from Mr. Q, all other directors were non-executive directors and did not interfere with the management and operational decisions of the core management group which consisted Mr. Q and the Management Committee. *Decision* 5. The management continuity requirement was satisfied because the management of Company A had been carried out through the core management group comprising Mr. Q, the only executive director, and the Management Committee throughout the Relevant Period.
Company B *(MB applicant) (2006)* Rule reference: MB Rule 8.05(1)(b); Paragraph 2 of MB Practice Note 3	*Background* 1. Company B held more than 30 subsidiaries, of which five were identified as key operating subsidiaries. 2. More than half of the executive directors and substantially all of the senior management members of Company B had held senior management positions in or had managed the operations of the key operating subsidiaries throughout the Relevant Period. 3. At least half of the executive directors of each of the key operating subsidiaries were executive directors or senior managers of the respective key operating subsidiaries throughout the Relevant Period. *Decision* 4. The management continuity requirement was satisfied because the core management group, being the executive directors and senior management members of Company B and the key operating subsidiaries who were most relevant to the trading record results of Company B, had continued to serve Company B and its respective key operating subsidiaries throughout the Relevant Period.

Applicant	Background and Decision
Company C *(MB applicant) (2006)* Rule reference: MB Rule 8.05(1)(b); Paragraph 2 of MB Practice Note 3	*Background* 1. During the trading record period, the group was reorganised and Company C became the group's holding company, while the principal business of the group was carried out by Subsidiary C. 2. Mr. X was the only executive director that remained on the board of directors of Company C throughout the Relevant Period, while Mr. X and his wife were the only executive directors of Subsidiary C that remained as executive directors up to the time of listing. 3. Mr. X was also the founding member, chairman, legal representative and general manager of the group throughout the Relevant Period. He was responsible for the overall management and strategic development with the assistance of other directors and senior managers. *Decision* 4. The management continuity requirement was satisfied because the significant responsibilities with respect to the group's business operations were bestowed upon Mr. X and that his contributions were proved to have continued throughout the Relevant Period.

Annex A.3 Ownership Continuity and Control

Applicant	Background and Decision
Company A *(MB applicant) (2004)* Rule reference: MB Rule 8.05(1)(c)	*Background* 1. Subsidiary X was Company A's only operating subsidiary, which was owned as to approximately 50%, over 5% and over 40% by Owner A, Labour Union X and other shareholders, respectively, before the track record period. 2. In the second financial year, Owner A entrusted over 45% interests in Subsidiary X (the "**Entrusted Shares**") in favour of Labour Union X. Under the entrustment agreement between Owner A and Labour Union X, Labour Union X was entitled to exercise all the shareholder rights in respect of the Entrusted Shares, including the right to exercise the voting powers associated therewith, except for the right to dispose of the Entrusted Shares. Labour Union X was entitled to receive all the dividends declared or benefits attributable to the Entrusted Shares in the form of a fee. Labour Union X was in a position to exercise all the rights of and control over the Entrusted Shares normally available to a shareholder in Subsidiary X. 3. The entrustment arrangements were put in place because the PRC Company Law prohibited Owner A from transferring its shares during the first three years of incorporation. The PRC legal advisers confirmed that the entrustment arrangements were valid and did not violate any PRC laws and regulations. The entrustment arrangements were subsequently confirmed by the relevant PRC authorities. 4. In the third financial year, Labour Union X was succeeded by Labour Union Successor (together with Labour Union X, "**Labour Union**"). The succession did not involve change in the underlying shareholding interests and was approved by the relevant PRC authorities. Shortly after the track record period, the legal title of the Entrusted Shares was transferred to Labour Union Successor. *Decision* 5. By aggregating the Entrusted Shares with its original 5% shareholding, as at the date of the signing of the entrustment agreement in the second financial year and since that date, Labour Union was able to exercise control over and all the rights of over 50% equity interest in Subsidiary X. Hence, Labour Union X and its successors had maintained ownership continuity and control for at least the most recent audited financial year under MB Rule 8.05. Further, the Exchange was not aware of any circumstances which might suggest that there had been packaging of businesses for seeking a listing. As such, the ownership continuity and control requirement under MB Rule 8.05(1)(c) was satisfied.
Company B *(MB applicant) (2005)* Rule reference: MB Rule 8.05(1)(c)	*Background* 1. Company B had two classes of shares. (i) Class A Shares were held by Company B's senior management and their business associates ("**Founding Individuals**"). Class A Shares accounted for 51% of the voting rights and 10% equity interest in Company B; and (ii) Class B Shares were held by three investors ("**Financial Investors**"), which accounted for 49% of the voting rights and 90% equity interest. Pursuant to a

<table>
<tr><th>Applicant</th><th>Background and Decision</th></tr>
<tr><td></td><td>
shareholders' agreement entered into between the Founding Individuals and Financial Investors in the second financial year, the Financial Investors were granted veto rights with regard to major corporate decisions of Company B.

2. After additional investment and the conversion of Class A shares into Class B shares during the third financial year, the Founding Individuals' aggregated shareholdings increased to 60%. The shareholding changes were as follows:

<table>
<tr><th colspan="2" rowspan="2">Shareholding/Voting Rights in Company B</th><th colspan="2">Class A Shares</th><th colspan="2">Class B Shares</th><th rowspan="2">Total</th></tr>
<tr><th>Founding Individuals</th><th>Financial Investors</th><th>Founding Individuals</th><th>Financial Investors</th></tr>
<tr><td>Before Year 3</td><td>Shareholding</td><td>10%</td><td>-</td><td>-</td><td>90%</td><td>100%</td></tr>
<tr><td></td><td>Voting rights</td><td>51%</td><td>-</td><td>-</td><td>49%</td><td>100%</td></tr>
<tr><td>During Year 3</td><td>Shareholding</td><td>-</td><td>-</td><td>60%</td><td>40%</td><td>100%</td></tr>
<tr><td></td><td>Voting rights</td><td>-</td><td>-</td><td>60%</td><td>40%</td><td>100%</td></tr>
</table>

3. No individual member of the Founding Individuals or the Financial Investors held a controlling interest at any time during the track record period.

4. Although the Founding Individuals did not have a shareholders' agreement, there was a reasonable basis to view the Founding Individuals as a group of controlling shareholders. They had a long term business relationship and had jointly invested in the Group for more than four years. They held regular meetings, reached consensus on key decisions and had unanimous voting patterns. None of them ever exercised his/her voting rights independently without the concurrence of other Founding Individuals.

5. In contrast, the Financial Investors never acted as a group of controlling shareholders. Each of them was an independent private equity investor owned and managed separately. There had been no understanding or arrangement that their board representatives would vote in any coordinated manner. They were not parties acting in concert under the Takeovers Code. The Exchange found that the veto rights could be regarded as conferring on the Financial Investors some operational control over Company B, nonetheless, they had never exercised their veto rights and the day-to-day management of Company B was entrusted to the Founding Individuals.

Decision

6. The ownership continuity and control requirement under MB Rule 8.05(1)(c) was satisfied as the Founding Individuals were considered a group of controlling shareholders.
</td></tr>
<tr><td>Company C
(MB applicant) (2006)

Rule reference: MB Rule 8.05(1)(c)</td><td>
Background

1. After the track record period, the controlling shareholder, Mr. X, transferred his shareholding to Holdco X which in turn was held by a professional trust company. Mr. X's wife and children (other than Mr. X himself) were the eligible beneficiaries of the family trust for which the said professional trust company acted as trustee.

2. Mr. X was in actual control of the trust:
</td></tr>
</table>

Applicant	Background and Decision
	(i) The eligible beneficiaries were associates of Mr. X and the trust was established for estate planning purpose; and (ii) Mr. X, as the appointer of the trust, had the power to remove the trust company and to appoint new trustee(s) in its place. In addition, exercise of powers by the trust company must be accompanied by a prior notice to Mr. X, even though Mr. X had no power to interfere with the trust company's exercise of powers under the trust. *Decision* 3. The ownership continuity and control requirement under MB Rule 8.05(1)(c) was satisfied because the shareholding structure did not constitute a replacement of Mr. X's interest in Company C. The family trust was established for estate planning purpose and was not for the purpose of "packaging" the business to meet the profit requirement under the Listing Rules nor to circumvent any disclosure requirements under the SFO.
Company D *(GEM applicant) (2017)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. After the most recent financial year, one of two controlling shareholders ceased to be a controlling shareholder and the management was no longer influenced by the same controlling shareholders. 2. The sponsor failed to demonstrate that influence over the management by the remaining controlling shareholder was not materially different from that exerted by the two controlling shareholders. As such, an investor could not assess, based on the previous financial results, how Company D would be managed under the sole influence of the remaining controlling shareholder. *Decision* 3. The listing application was rejected as Company D failed to meet the ownership continuity and control requirement under GEM Rule 11.12A(2) due to the change in the controlling shareholders after the most recent financial year.
Company E *(GEM applicant) (2018)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. During the most recent financial year, one of three controlling shareholders ceased to be a controlling shareholder. The sponsor failed to demonstrate that the departing controlling shareholder was a passive shareholder during the relevant period. 2. After the track record period, there was a material change in the voting interests between the two remaining controlling shareholders, who constituted a group of controlling shareholders. *Decision* 3. The listing application was rejected as Company E failed to meet the ownership continuity and control requirement under GEM Rule 11.12A(2) due to the departure of a controlling shareholder and material change in the voting interests of the remaining controlling shareholders after the track record period.

Annex A.4 Minimum Market Capitalisation

Applicant	Background and Decision
Company A *(GEM applicant) (2017)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company A was a provider of vehicle services in Hong Kong. It applied for a spin-off listing on GEM by way of introduction. As there was no offering, Company A sought to rely on its forecast P/E ratio to demonstrate compliance with the then applicable minimum market capitalisation requirement (i.e. HK$100 million) under GEM Rule 11.23(6). 2. Company A originally submitted a forecast adjusted P/E ratio (based on its 2016 estimated earnings excluding listing expenses) of over 45 times. When asked to provide the basis for the ratio, Company A revised the adjusted P/E ratios to over 15 times, which still met the required minimum market capitalisation. 3. The revised adjusted P/E ratio was determined based on historical P/E ratios of two companies not directly comparable with Company A and the determination involved various assumptions and judgement. One comparable company was loss-making at the relevant time and Company A estimated the P/E ratio of the comparable company based on the comparable company's valuation two years ago (when it was profitable) after adjusting for the percentage decrease in the Hang Seng Index thereafter. The other comparable company was listed on an overseas exchange and only one of its segments was similar to Company A's business. Furthermore, Company A's assessment did not account for the differences between the historical and forecast P/E ratios. *Decision* 4. The listing application was rejected as Company A failed to satisfactorily demonstrate compliance with the eligibility requirement in view of the significant changes in the forecast adjusted P/E ratio and the determination of such ratio was highly subjective and discretionary.

Annex A.5 Qualification for GEM Transfer

Applicant	Background and Decision
Company A *(MB applicant) (2015)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company A had a December financial year end. It was listed on GEM in January last year *[year T-1]* and was applying for a transfer of listing from GEM to the Main Board in May this year *[year T]*. 2. Under MB Rule 9A.02(2), a GEM listed issuer may apply for a transfer of listing of its securities from GEM to the Main Board if, among other things, it complied with GEM Rule 18.03[1] in respect of its financial results for the first full financial year commencing after the date of its initial listing. 3. As Company A was listed in January of *[year T-1]*, its first full financial year would be ended on December of *[year T]*, and it could apply for transfer of listing from GEM to the Main Board after it had sent its annual report for the year ended December of *[year T]*. However, Company A submitted its application to transfer to the Main Board in May of *[year T]*, which was before the end of its first full financial year after the date of its initial listing (i.e. December of *[year T]*). In other words, the first full financial year as required under GEM Rule 18.03 had not yet completed. *Decision* 4. The transfer application was rejected as Company A failed to comply with the transfer qualification requirements under MB Rule 9A.02(2).

[1] Under GEM Rule 18.03, the listed issuer must send to every member of the listed issuer; and every other holder of its listed securities, a copy of either (i) the directors' report and its annual financial statements and, where the listed issuer prepares consolidated financial statements, the consolidated financial statements, together with a copy of the auditors' report thereon or (ii) its summary financial report, not less than 21 days before the date of the listed issuer's annual general meeting and not more than four months after the date upon which the financial period ended.

Annex A.6 Business Sustainability

Applicant	Background and Decision
Company A *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company A was engaged in a regulated business. It generated certain income from activities that were in breach of local regulations governing its business operation. Excluding the cash flow generated from this non-compliant income, Company A would fail to meet the minimum cash flow requirement under GEM Rule 11.12A(1). 2. Company A's financial outlook raised concerns, considering: (i) its heavy indebtedness with minimal cash at bank and unutilised banking facilities where minimal cash and cash equivalents were available due to a cash flow mismatch between settlement of expenses and the lengthy billing cycle for its major customers; (ii) its significant trade receivables, with long and deteriorating receivable turnover days; (iii) the high customer concentration, which raised doubts as to its bargaining powers with its customers; and (iv) the uncertainty regarding its ability to obtain independent financing after using up the unutilised banking facilities and ceasing its reliance on its controlling shareholders to guarantee its borrowings after listing. 3. Further, there was insufficient disclosure on the competitive landscape to enable investors to understand the prospects of the industry. *Decision* 4. The listing application was rejected due to concerns regarding Company A's business sustainability and inability to meet GEM Rule 11.12A(1), which cast doubt on whether Company A was able to continue its business on a going concern basis.
Company B *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company B was engaged in gaming-related business which required a licence from the competent authority. It heavily relied on one head operator for commissions based on spending of customers introduced by it at the head operator's venue. However, this reliance was not mutual, considering that (i) the annual licence renewal was contingent on the continuation of the cooperation agreement with the head operator, and (ii) the intense competition from Company B's industry peers. The competitive landscape raised significant concerns about Company B's sustainability, given its heavy dependence on a single operator for commissions. 2. Company B also relied heavily on a few business partners to bring in customers whose credits were partly guaranteed by these business partners. 3. In view that Company B earned interest income for providing loans to its customers (part of which were guaranteed by the business partners), there were concerns on whether, and Company B failed to demonstrate that, its credit risk control measures were sufficient in ascertaining the creditworthiness of its business partners and customers to mitigate the significant credit risks involved. 4. Company B experienced a decline in its net profit margin during the track record period.

Applicant	Background and Decision
	Decision 5. The listing application was rejected due to concerns on Company B's business sustainability.
Company C *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company C was engaged in property sub-leasing business. There were concerns on its business model considering: (i) Company C's track record results, which might have been distorted and would not accurately represent its future performance, due to two major reasons: (a) the owner of the properties leased by it had not obtained the relevant property ownership certificates; and (b) it failed to demonstrate its ability to secure a lease of similar size in the same area from a property owner with proper property ownership certificates at a comparable rent; and (ii) Company C's ability to terminate the master lease agreement with a property owner without any penalties during the track record period, which was unusual. There was no compelling evidence or market comparable data to substantiate that such practice was an industry norm. 2. Company C's controlling shareholder was interested in property investment and development businesses which targeted types of tenants similar to that of Company C. Company C had failed to demonstrate effective measures in managing conflicts in sourcing tenants for both the properties owned by the controlling shareholder and those owned by it, especially considering the extreme competition[1] between them. *Decision* 3. The listing application was rejected due to concerns on Company C's business sustainability.
Company D *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company D was a hotel developer and owner. There were concerns on its business sustainability considering: (i) Company D's heavy reliance on government discretionary interest subsidies to maintain sufficient cash flow for meeting its debt payments; (ii) Company D's loss-making history which was expected to continue in the foreseeable future and would be further aggravated by its proposed business expansion plans; and (iii) The absence of a clear path to profitability for its properties, with an estimated a long break-even and payback period of over 15 years.

[1] Competition between an applicant and its controlling shareholder was not a bar to listing. Nevertheless, the Exchange expected effective measures in place to manage conflict of interests, failing which might lead to concerns about suitability for listing.

Applicant	Background and Decision
	2. Company D experienced a decline in operating performance and financial results due to travel restrictions in the area where it conducted its business. There were insufficient bases to support (i) the claim that Company D's market strategy and proposed expansion plan could help alleviate its deteriorating performance; and (ii) the forecast of upward trends in profitability. *Decision* 3. The listing application was rejected due to concerns on Company D's business sustainability.
Company E *(MB applicant) (2016)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company E was engaged in gaming-related business. It generated revenue from casino operators by introducing VIP players to designated VIP rooms at casino operators' venues. The VIP players were sourced and introduced by junket agents; and Company E paid these agents commissions accordingly. 2. During the track record period, Company E's financial performance deteriorated, and this deterioration was unlikely to be short-term considering the industry outlook and intense competition among industry players. 3. There were concerns over the completeness, accuracy and genuineness of the lump sum service fees paid to a connected person, which represented a significant portion of Company E's selling, general and administrative expenses during the track record period. 4. Company E's track record results could not be considered indicative of its future performance due to material changes in its revenue model since the third quarter of the second year of the track record period. These changes specially related to the calculation basis for (i) the income received from casino operators; (ii) the commission payable to junket agents; and (iii) the charges payable to a connected person for the provision of human resources and administrative services after the track record period. *Decision* 5. The listing application was rejected due to concerns on Company E's business sustainability.
Company F *(MB applicant) (2016)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company F was a property investment company. During the track record period, Company F invested in retail properties and had a number of investment properties. The business was operated by the controlling shareholder who was assisted by one staff member. In preparation for its listing, Company F employed 11 staff. There was no track record of Company F having operated as a business with its own personnel and established systems and processes. Company F did not have a track record of the current structure to provide comfort on the effectiveness of its internal controls, management and operational systems which investors could rely on to assess Company F.

Applicant	Background and Decision
	2. It also failed to demonstrate its ability to comply with the management continuity requirement during the track record period. 3. Company F's reliance on the fair value gains from investment properties to meet the minimum profit requirement was extreme[2]. Over 80% of its net profit during the track record period was attributable to these fair value gains. 4. There was a significant deterioration in Company F's financial performance after the track record period due to the poor market outlook; and increased finance costs and operating expenses. Such downward trend and heavy reliance on fair value gains (see paragraph 3 above) were expected to continue after listing based on Company F's profit forecast. *Decision* 5. The listing application was rejected due to concerns on Company F's business sustainability.
Company G *(GEM applicant) (2016)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company G was a printing service provider. Its net profit experienced a significant decline during the track record period. Following the track record period, Company G's largest customer, who had contributed significantly to Company G's revenue during the track record period, redirected its orders for a specific product to Company G's competitor. This shift resulted in a significant decrease in Company G's forecast sales. 2. The profit forecast provided by Company G lacked basis. It remained uncertain (i) whether orders from new customers could compensate for the lost orders, as only a small part of the forecast revenue was made up of confirmed orders from new customers; and (ii) as to the basis of Company G's forecast of a significant growth in its revenue as compared with its industry peers, given the mature nature of the industry and Company G's market share. 3. Company G, which was believed to have lost its largest customer due to price competition with its competitor, might face further pricing pressures in order to attract new customers and to retain its existing customers, which would lead to further deterioration of its future profitability. 4. Company G's plan to use more than 90% of its net IPO proceeds to acquire new machines for its business was unsubstantiated, taking into account that (i) the utilisation rates of its existing major machines were only between 46% and 55% during the track record period; (ii) the additional depreciation charges and increased fixed costs (e.g. cost of hiring additional operation staff and maintenance costs) arising from the acquisition of new machines could have an adverse impact on Company G's future profitability; and (iii) there was no clear explanation as to its strategy for the need of the additional machines. *Decision*

[2] Although reliance on fair value gains did not by itself render an applicant engaged in a property business not suitable for listing, the Exchange was of the view that, in this case, the applicant's reliance on the fair value gains was extreme.

Applicant	Background and Decision
	5. The listing application was rejected due to concerns on Company G's business sustainability.
Company H and Company I *(MB applicants) (2017)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company H was an integrated excavation service provider. It sold unprocessed ore abroad during the track record period and planned to process the ore before selling it after listing, which was in response to regulatory changes that prohibited the export of unprocessed ore. 2. Company I was a trading company. It outsourced the production for its sales activities during the track record period and planned to shift its business focus to both production and sale of a new product after listing. 3. Each of the applicants failed to demonstrate the sustainability of their new business due to significant changes in their business model, cost structure, profitability and risk profile. Additionally, the management of each of the applicants lacked experience in operating the new business, which differed fundamentally from their existing operations. *Decision* 4. The listing applications were rejected as the business sustainability of both applicants (especially in respect of their new business) was extremely uncertain.
Company J *(GEM applicant) (2017)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company J was a distributor of two brands of consumer products. Both brands had small and declining market share, leading to deteriorating financial performance, particularly after the manufacturer terminated the supply of a major product of one brand. The plan to turnaround the business required a shift of business focus to its second brand, which had an even smaller market share and less market prominence, after the track record period. 2. Company J relied on bank facility to maintain a positive cash balance and had high levels of gearing and net current liabilities. *Decision* 3. The listing application was rejected as Company J's business sustainability was extremely uncertain.
Company K *(GEM applicant) (2018)* Rule reference: GEM Rule	*Background* 1. Company K was a restaurant operator. Its profit margin had been consistently low and declining. Specifically: (i) During the track record period, half of Company K's restaurants operated at a loss, and a number of them eventually closed down;

Applicant	Background and Decision
2.09; GEM Chapter 11	(ii) Company K's profit-making restaurants experienced a decline in operating margins, primarily attributable to slowing economy and rising rental and labour costs; (iii) Company K's net profit margins remained low, despite various measures implemented to cut costs and drive revenue growth; and (iv) Considering the potential increase in restaurant operating costs and headquarter overhead in line with inflation, Company K might not be able to sustain its business in the long term. 2. All of Company K's restaurants operated on leased properties and rental expenses as a percentage of Company K's revenue had been increasing during the track record period. Company K's sensitivity to escalating rental costs had been evident, given that it recently closed down a full service restaurant due to the increase in rental expenses. 3. Further, due to the significant capital expenditure required to establish restaurants and the potential reinstatement costs in case of non-renewal, restaurant operators generally had limited bargaining power during lease renewals. 4. There was an imminent risk that Company K's leases might be renewed on unfavourable terms in view that (i) most of its restaurant lease agreements were for two to three years without renewal options; and (ii) as of the LPD, the majority of its restaurant lease agreements would expire within a year and Company K had not been able to successfully negotiate rent reductions upon lease renewal after the track record period. *Decision* 5. The listing application was rejected as Company K's business sustainability was extremely uncertain.
Company L *(GEM applicant) (2018)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company L operated a printing business. The substantial expansion of its facilities and human resources (which could have been funded with its internal sources) was unsubstantiated and not commensurate with its historical and future business strategies. 2. Company L's controlling and substantial shareholders had previously established, listed and disposed of a printing business. In particular, they sold their interests shortly after their lock-up expired. This raised concern on whether they would be committed to nurturing Company L in the long run. *Decision* 3. The listing application was rejected because Company L failed to demonstrate its suitability for listing.

Applicant	Background and Decision
Company M *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company M leased and operated a stand-alone high-end shopping centre. It derived the majority of its income from (i) sub-leasing retail units in the shopping centre; and (ii) providing property management services to tenants. In the last year of the track record period, Company M had also started offering consultancy services to property developers. 2. During the track record period, there had been a significant deterioration in Company M's performance. Company M's attempts to turnaround performance from its main businesses were ineffective, due to the relatively inferior location of its shopping centre and potential increased competition from newer shopping centres. 3. The relevant revenue contribution from Company M's consultancy business was relatively small, uncertain and highly volatile due to its short operating history and project-based nature, despite attempts to diversify its revenue streams. *Decision* 4. The listing application was rejected taking into account Company M's deteriorating financial performance during the track record period, and there was insufficient basis to support that the situation would improve.
Company N *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company N operated retail outlets of multi-brand maternity, baby and child-care products. Its planned use of proceeds was to fund local expansion plans, pursue strategic acquisitions and upgrade existing outlets. 2. Company N failed to substantiate its need to significantly expand its retail network and pursue acquisitions, considering (i) the declining market demand and increasing competition from online retailers; (ii) its deteriorating revenue and profit during the track record period; and (iii) its ability to fund the expansion through its substantial cash and/or banking facilities. *Decision* 3. The listing application was rejected because Company N failed to demonstrate its suitability for listing.
Company O *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company O supplied electronic car parking systems. It failed to substantiate its proposed use of proceeds and the listing application lapsed. 2. In the renewed listing application, Company O amended the use of proceeds to include purchasing property as part of its expansion. In response to the Exchange's comments, Company O decided to rent property instead and amended its use of proceeds several times thereafter.

Applicant	Background and Decision
	Decision 3. Company O failed to substantiate the veracity of its expansion strategy and the rationale for its listing, considering the drastic changes in the proposed use of proceeds during the vetting process. As such, Company O failed to demonstrate its suitability for listing and its listing application was rejected.
Company P *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company P provided laundry and linen management services to customers. 2. During the track record period, Company P recorded limited growth in revenue and profit and was unable to demonstrate its ability to grow at a level commensurate with that of the industry. In addition, it was unable to address questions around whether there would be an adequate market for its securities. 3. Company P failed to justify the basis of its significantly high forecast price-to-earnings ratio. *Decision* 4. The listing application was rejected because Company P failed to demonstrate its suitability for listing.
Company Q *(GEM applicant) (2019)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company Q owned and operated one hotel. Its proposed listing was by way of a spin-off from its parent. It provided only boilerplate reasons for its listing, including financing flexibility for any future acquisition or refurbishment. 2. During the track record period, Company Q had sufficient operating cash flows, substantial cash and bank balances and unutilised banking facilities. *Decision* 3. The listing application was rejected because Company Q failed to demonstrate its suitability for listing.
Company R *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company R manufactured and sold steel products for construction projects and provided related construction and ancillary services. It planned to use the listing proceeds to acquire a parcel of land for its production facilities. 2. During the track record period, Company R's financial performance deteriorated and it had excess production capacity. Yet its use of proceeds was to fund expansion, which was not supported by increased demand. 3. Company R's valuation against its peers was questionable and it had substantial cash and/or banking facilities available to fund its expansion plan.

Applicant	Background and Decision
	Decision 4. The listing application was rejected because Company R failed to demonstrate its suitability for listing.
Company S *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company S was a subcontractor for formwork erection works and ancillary services. It planned to use the listing proceeds to acquire new commercial premises and equipment. 2. There was no clear competitive advantage to owning new premises. Specifically, Company S claimed that owning new premises would improve corporate image but it was unconvincing. Other objectives of the plan (e.g. capturing market demand and enhancing corporate governance) could be achieved without listing. Further, net savings from owning its premises and certain equipment were not substantiated as Company S did not take into account relevant depreciation charges. *Decision* 3. The listing application was rejected because Company S failed to demonstrate its suitability for listing.
Company T *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company T sold building and home furnishing products. It planned to use a substantial portion of the proceeds to diversify into new products and open new retail stores. 2. Company T failed to substantiate its expansion plan considering (i) the uncertainty as to the amount of working capital required for the new products; and (ii) the decreasing number of retail stores during the track record period and its adoption of a distributorship model, which allowed it to expand in regions without incurring significant costs to self-operate physical stores. 3. Further, its proposed valuation (higher than that of its peers) was unsubstantiated in view of (i) its flat historical and forecast profit growth; and (ii) the decrease in average revenue generated from each store during the track record period. *Decision* 4. The listing application was rejected because Company T failed to demonstrate its suitability for listing.
Company U *(MB applicant) (2019)* Rule reference: MB Rule	*Background* 1. Company U provided plumbing and drainage services. It proposed to acquire a large parcel of land as part of its expansion. 2. Company U had previously provided its services on leased property and owning land for a warehouse was not commensurate with its past business strategies. It failed to demonstrate that its expansion plan would result in additional revenue and

Applicant	Background and Decision
2.06; MB Chapter 8	capture additional market share. Further, it could not explain the need for a large parcel of land, as it only had plans to use approximately half of it. *Decision* 3. The listing application was rejected because Company U failed to demonstrate its suitability for listing.
Company V *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company V provided electrical and mechanical engineering services. It proposed to use the listing proceeds primarily for expanding its workforce and acquiring premises for a warehouse and workshop. 2. Company V failed to substantiate the business needs for expansion, considering (i) the industry outlook and its project backlog; (ii) that the reasons for the expansion were unclear; and (iii) that it had been able to grow the business historically without providing additional services that required a workshop. *Decision* 3. The listing application was rejected because Company V failed to demonstrate its suitability for listing.
Company W *(GEM applicant) (2019)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company W was a locally based property agency that marketed overseas properties. It proposed to use the listing proceeds to fund its overseas expansion. 2. Company W had no prior experience of overseas operation and did not provide any basis for determining (i) its ability to overcome the entry barriers; and (ii) how the assumptions and breakeven analysis had been achieved. *Decision* 3. The listing application was rejected because Company W failed to demonstrate its suitability for listing.

Applicant	Background and Decision
Company X *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company X provided financial advisory and taxation solution services. During the track record period, Company X relied on internally generated funds to finance operations, with no bank borrowings for the three years prior to its listing application. It planned to use the listing proceeds to (i) acquire commercial premises in other target markets to establish a presence; (ii) promote its services by producing videos; and (iii) establish a "knowledge hub" nationwide to promote its services. 2. Given that Company X had historically been able to develop a customer base in the target markets without representative offices and consistently generated positive operating cash flows throughout the track record period, it could not substantiate its rationale to acquire property and its funding needs. *Decision* 3. The listing application was rejected because Company X failed to demonstrate its suitability for listing.
Company Y *(GEM applicant) (2020)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company Y sold lighting products and provided lighting support and installation services for building construction and building renovation projects. It proposed to allocate the listing proceeds to acquire a key component supplier, acquire an additional production plant, and hire additional staff. 2. However, Company Y's proposed expansion was not substantiated: (i) The supplier was only able to produce key components for one type of products sold by Company Y, and the revenue contribution from that product was relatively low (10% to 20% during the track record period); (ii) The expected annual cost savings from the additional plant were marginal (less than 1% of Company Y's forecast net profit (excluding listing expenses) for the forthcoming financial year); and (iii) The proposed hiring plan (which would almost double the team size) was unsubstantiated based on the expected industry growth. *Decision* 3. The listing application was rejected because Company Y failed to demonstrate its suitability for listing.
Company Z *(MB applicant) (2020)* Rule reference: MB Rule	*Background* 1. Company Z was a motor vehicle dealer. It proposed to use the listing proceeds primarily to replace its current showroom with a newly acquired one (which would double the size). However, it failed to demonstrate sufficient demand to support its plan in light of the 5.9% decline in the automotive retail industry from 2018 to 2022.

Applicant	Background and Decision
2.06; MB Chapter 8	*Decision* 2. The listing application was rejected because Company Z failed to demonstrate its suitability for listing.
Company AA *(GEM applicant) (2020)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company AA provided commercial and industrial kitchen equipment solutions. It proposed to use a significant portion of the listing proceeds to pay the listing expenses and allocate 90% of the remaining proceeds (excluding listing expenses) to establish a new manufacturing facility for a product. 2. As sales of the particular product had contributed less than 5% of revenue during the track record period, Company AA did not adequately explain why it was pursuing an increase in production for such product. In addition, that product had a small market and low forecast industry growth. *Decision* 3. The listing application was rejected because Company AA failed to demonstrate its suitability for listing.
Company AB *(GEM applicant) (2020)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company AB operated three restaurants. It planned to use a substantial portion of the listing proceeds to open two more restaurants. 2. However, Company AB had only opened three restaurants during its long operating history of 12 years. It proposed to expand aggressively by opening two restaurants despite the fact that its overall business performance from restaurant operations had remained relatively flat. 3. Its expected valuation was questionable considering that (i) Company AB recorded minimal growth from its restaurant operations during the track record period while its comparables were significantly larger in terms of operating scale and revenue; and (ii) its consultancy income, which was taken into account in arriving at the valuation, was non-recurring. *Decision* 4. The listing application was rejected because Company AB failed to demonstrate its suitability for listing.
Company AC *(MB applicant) (2020)* Rule reference: MB Rule	*Background* 1. Company AC (i) manufactured and sold cold-rolled steel bars and steel wire products; (ii) processed and sold hot-rolled steel bars; and (iii) traded building materials and accessories. 2. Company AC planned to establish new production facilities for steel bars and wires despite its declining revenue growth (from 27.5% in 2018 to 5% in 2019). Further,

Applicant	Background and Decision
2.06; MB Chapter 8	its projection that demand for steel bars and wires would increase was inconsistent with the sluggish industry outlook. 3. Company AC's valuation was not substantiated in view of (i) its significant deterioration in its profit forecast; and (ii) its significantly higher (80%) price-to-earnings ratio than that of its industry peers. *Decision* 4. The listing application was rejected because Company AC failed to demonstrate its suitability for listing.
Company AD *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AD supplied optical components. Its proposed use of proceeds was to purchase additional machinery, recruit additional staff and acquire manufacturing suppliers. 2. Company AD failed to substantiate its expansion plan: (i) Its argument to reduce supplier concentration risk by acquisition was inconsistent with its disposal of the entire interest in a major supplier during the track record period, and it failed to explain such change in strategy; (ii) Its inability to change suppliers without customers' prior approval; (iii) Company AD had made minimal additions to plant and machinery during the track record period and stated that that was due to a lack of financial resources. However, it was evident that Company AD could consistently generate operating cash flows during the track record period, and it would only have taken six months to generate sufficient funding for such plan; and (iv) Its failure to explain the business need for the planned 80% increase in workforce, as the work of devising new testing plans and equipment calibrations, once established, would not require substantial ongoing effort. *Decision* 3. The listing application was rejected because Company AD failed to demonstrate its suitability for listing.
Company AE *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AE was a subcontractor for electrical and mechanical engineering services for building service systems. It planned to use the listing proceeds to procure systems for direct supply to its customers and enhance its internal capabilities through equipment acquisition and hiring additional staff. 2. The expansion plan was not supported by sufficient demand considering that (i) it did not have a strong contract backlog and there was a downward trend in the value of new contracts obtained during the track record period; and (ii) it failed to

Applicant	Background and Decision
	substantiate the projected cost savings from procuring the systems (compared to its previous practice to engage subcontractors to supply the same). 3. Company AE's valuation was unsubstantiated, as its profit forecast projected (i) a decline in adjusted net profit; and (ii) a price-to-earnings ratio which was higher than that of its peers. *Decision* 4. The listing application was rejected because Company AE failed demonstrate its suitability for listing.
Company AF *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AF formulated, developed and supplied polymer materials used in the manufacturing of specialty cables. It planned to use the listing proceeds to pursue a strategic investment in an upstream compounder and establish an in-house product development centre. 2. Company AF failed to substantiate its expansion plan considering its (i) stable supply of polymer components and long-term relationship with upstream compounders; (ii) low sales volume during the track record period (less than 200 tonnes) relative to the expanded capacity from the proposed acquisition (6,000 tonnes), and the sales volume was expected to further decline in the forecast period; and (iii) ability to operate for 18 years without owning an in-house development centre and failure to substantiate the material benefits of having one. *Decision* 3. The listing application was rejected because Company AF failed to demonstrate its suitability for listing.
Company AG *(GEM applicant) (2020)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company AG provided container depot management services and container maintenance services. 2. Company AG proposed to use the listing proceeds to replace machinery, recruit additional staff and establish a new depot, which would increase the total capacity of its existing depot in that city by 100%. It failed to demonstrate that there would be sufficient demand for the new depot, and it was able to fund its expansion plans through deployment of its then available cash or bank borrowings. *Decision* 3. The listing application was rejected because Company AG failed to demonstrate its suitability for listing.
Company AH *(MB applicant) (2020)*	*Background* 1. Company AH rented and sold construction equipment. It planned to use 22% of the listing proceeds to construct integrated premises.

Applicant	Background and Decision
Rule reference: MB Rule 2.06; MB Chapter 8	2. Company AH failed to justify its business needs for the integrated premises considering (i) the declining revenue from the relevant business; (ii) the scale of the new premises (expected to be 70% larger than the existing premises), even though it only planned to expand its rental fleet by 12% to 13%; and (iii) that the depreciation and amortisation resulting from the integrated premises would be higher than its existing rental expenses. *Decision* 3. The listing application was rejected because Company AH failed to demonstrate its suitability for listing.
Company AI *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AI was a main contractor focusing on public civil engineering projects. It planned to use the listing proceeds to expand its operations through acquisition of new machinery and equipment, additional hiring and payment for performance bonds. 2. The expansion plan was not supported by market demand considering the adverse trends observed throughout the track record period, including the decreases in (i) revenue (at a CAGR of less than 3%) with relatively stable gross profit margin; (ii) average project size of contracts secured; and (iii) backlog (by around 40%) with no new projects awarded since the end of the latest financial year. *Decision* 3. The listing application was rejected because Company AI failed to demonstrate its suitability for listing.
Company AJ *(GEM applicant) (2020)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company AJ supplied fixtures and furniture, and decoration materials. It planned to use the listing proceeds to establish a showroom, expand overseas, and pay the upfront costs for certain projects. 2. The expansion plan was not justified considering (i) Company AJ's increase in sales without the new showroom during the track record period and failure to demonstrate the benefits of having a showroom; (ii) that the proposed overseas expansion plan was not supported by any market data or study; and (iii) its ability to consistently generate cash flows and failure to explain why it required funding for payment of upfront costs for projects that had already commenced. *Decision* 3. The listing application was rejected because Company AJ failed to demonstrate its suitability for listing.

Applicant	Background and Decision
Company AK *(GEM applicant) (2020)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company AK sold and leased out real estate and planned to use the listing proceeds to expand its real estate portfolio. 2. As real estate investment was capital intensive, Company AK asserted that the listing would significantly enhance its capital base and financial position. However, given that the listing proceeds represented only 4% increase of the book value of Company AK's property portfolio, Company AK's claim that the listing would substantially enhance its capital base and financial position was unsubstantiated. *Decision* 3. The listing application was rejected because Company AK failed to demonstrate its suitability for listing.
Company AL *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AL provided property management services. It planned to use 41% of the listing proceeds to renovate certain existing car parks (the "**Renovation**"). 2. It did not appear that the Renovation would materially benefit Company AL by increasing its chances of renewing its concession agreements/applying for parking tariff increments or its overall competitiveness, considering that (i) the relevant concession agreements did not require Company AL to undertake the Renovation and none of the tenders it had won during the track record period required any Renovation; and (ii) Company AL was able to increase parking tariffs without the Renovation. *Decision* 3. The listing application was rejected because Company AL failed to demonstrate its suitability for listing.
Company AM *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AM was a contractor providing (i) fitting-out services; and (ii) alteration and addition works to existing buildings. It proposed to use 60% of the listing proceeds to acquire a mechanical and electrical ("**M&E**") works contractor (the "**Strategic Acquisition**"), and additional machinery and equipment. 2. The Strategic Acquisition involved a change in business model and strategy from Company AM's previous role as a project manager to taking up the role of an M&E contractor – a role that was labour intensive, and which was not Company AM's expertise. Company AM could not demonstrate how the benefits of the Strategic Acquisition outweighed the costs of outsourcing or internally developing a stand-alone M&E practice. 3. In addition, Company AM did not substantiate the need to acquire machinery and equipment, as utilisation rates of the same type of machinery it already owned were low and it historically subcontracted work which required such machinery/equipment and required its subcontractors to provide them.

Applicant	Background and Decision
	Decision 4. The listing application was rejected because Company AM failed to demonstrate its suitability for listing.
Company AN *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company AN (i) provided pavement supply and lay services, largely for infrastructure projects; and (ii) sold asphalt premix products. It planned to use 25% of the listing proceeds to invest in a new asphalt plant and to purchase new machinery and equipment, and 65% of the listing proceeds to repay bank loans. 2. There was uncertainty over Company AN's business prospects (and its ability to secure projects), considering: (i) Its short operating history which commenced shortly before the track record period. A substantial portion of revenue was derived from one large-scale non-recurring project, which was approaching completion; (ii) Its inability to secure other contracts of similar size after the track record period. Due to slowdown in the industry, there were fewer projects tendered and continued decrease in value of new projects secured; and (iii) That it did not expect its revenue and profit to grow in the near future due to the limited visibility in its project pipeline. *Decision* 3. The listing application was rejected because Company AN failed to demonstrate its suitability for listing.
Company AO *(MB applicant) (2022)* Rule reference: MB Rule 8.04	*Background* 1. Company AO owned and operated five hospitals focusing on providing basic healthcare services to residents in local communities. Company AO had submitted its listing application with the corresponding track record period (the "**Original Track Record Period**"). In response to the Exchange's concerns, Company AO subsequently updated its listing application (the "**Renewed Listing Application**") and the corresponding track record period with an additional 12 months of financial information (the "**Renewed Track Record Period**"). 2. During the Original Track Record Period, Company AO generated most of its revenue from its outpatient clinic services (e.g. clinical treatments or day surgery), and inpatient hospital services (together, the "**Core Businesses**"), representing almost 80% of its revenue. The remaining revenue was mainly generated from its sales of pharmaceuticals. Its general physical examination services had only contributed minimal revenue during the Original Track Record Period. The business and financial performance of the Core Businesses had been deteriorating significantly (which the Exchange had serious concern over its business sustainability) mainly for the following reasons:

Applicant	Background and Decision
	(i) Two of Company AO's hospitals were found to be in breach of certain regulations imposed by the local hospital authorities (the "**Breaches**") for admitting some inpatients and mandating unnecessary inpatient services and treatments which involved higher fees. To prevent future Breaches (which might revoke Company AO's hospitals as designated medical institutions for social reimbursement purposes), Company AO had tightened its inpatient admission standards for all its hospitals. Since then, Company AO had recorded a significant drop in the utilisation rate of beds in operation, the number of inpatient visits and relevant revenue from inpatient hospital services. (ii) In view of the land title issues/defects at the original hospital site, Company AO had to scale down its operation at one of its hospitals (which contributed over 25% of its revenue), and planned to relocate to a new site, which was more distant from the original site and with only half of the total gross floor area and total number of beds (the "**Relocation**"). The operation of such hospital (the "**Relocated Hospital**") had been scaling down since the stub period of the Original Track Record Period. In addition, the remaining four hospitals were also located on leased properties with land title issues/defects or expiring term. The operations of these four remaining hospitals might also be exposed to potential material adverse impact arising from relocation; and (iii) The performance of the Core Businesses was further adversely affected since the outbreak of COVID-19 pandemic (the "**Outbreak**") as people were reluctant to visit hospitals amid the Outbreak. 3. The following were noted in the Renewed Listing Application (which covered the Renewed Track Record Period): (i) In an attempt to address the Exchange's concerns, Company AO submitted that its business had improved as a result of an increase in revenue from general physical examination services and the COVID-19 nucleic acid tests, each of which contributed around 10% (together around 20%) of its revenue in the last year and the stub period of the Renewed Track Record Period; (ii) However, the business and financial performance of the Core Businesses continued to deteriorate. In particular, the Relocation of the Relocated Hospital lasted for almost half a year and since its resumption, it only managed to achieve around one-third of its level of revenue prior to the scale-down of the operation. In addition, two of Company AO's hospitals (which contributed more than 40% of its total revenue) were located on properties with leases that had expired or would soon expire. Company AO had not provided any concrete renewal plans and the operations of these two hospitals were subject to imminent relocation risks; (iii) According to Company AO's forecast, it expected that the revenue from the Core Businesses would further decrease by around 10% notwithstanding the Outbreak had subsided, and that the revenue from the Relocated Hospital would still decrease by half as compared to that prior to the scale-down of the operation. In contrast, Company AO forecasted that the general physical examination services and the COVID-19 nucleic acid tests would further expand and contribute, in aggregate, nearly 30% of its total forecast revenue in the upcoming financial year. However, Company AO did not provide any basis in support of such growth estimate (e.g. no legally binding agreements

Applicant	Background and Decision
	substantiating the anticipated significant increase in general physical examination services); and (iv) In addition, Company AO planned to use a substantial portion of the listing proceeds for (a) upgrading equipment and hospital facilities aiming at providing more advanced diagnosis services, which it believed could increase the number of relatively more complex surgeries that generally had a higher gross profit margin; and (b) merger and acquisition of smaller hospitals located in areas where healthcare resources were scarce and demand for comprehensive and quality healthcare services was unmet, but no memorandum of understanding or agreement had been reached. 4. Company AO experienced prolonged deterioration in financial performance of the Core Businesses. Specifically: (i) The business and financial performance of Company AO's Core Businesses had been deteriorating significantly throughout the Original Track Record Period and the Renewed Track Record Period due to various adverse circumstances including the Breaches and the Relocation; (ii) Having considered the fact that the Relocated Hospital had sustained a material business decline as a result of the Relocation, the imminent risk of possible relocation faced by Company AO's two other major hospitals (which contributed a significant portion of its revenue) and its lack of concrete plans in renewing the leases or securing other appropriate hospital sites had aggravated the concern that this would materially adversely affect Company AO's operation, and in turn its business sustainability; and (iii) Company AO had no specific strategies or plans on improving the Core Businesses. Based on its own forecast, it did not anticipate a significant rebound in the Core Businesses during the forecast period recovering to the revenue and profitability level prior to (a) the tightening of the standards of inpatient admission of all hospitals as a result of the Breaches; and (b) the Relocation. The sponsor had also failed to provide any information to substantiate the sustainability of such businesses. 5. Company AO claimed that its business had improved in the last year of the Renewed Track Record Period and would continue to experience significant growth as a result of the increased revenue and profit from general physical examination services and COVID-19 nucleic acid tests. However, the provision of general physical examination services was not part of Company AO's Core Businesses. Instead, it was incidental to other core services and historically generated insignificant revenue. In the last year of the Renewed Track Record Period, general physical examination services accounted for only around 10% of Company AO's revenue. Additionally, there was no concrete basis to support the projected three-fold increase in revenue during the forecast period. For COVID-19 nucleic acid tests, the revenue was temporary and might not be sustainable in the long term, as the demand for such tests varied with the development of the Outbreak. 6. Company AO failed to demonstrate how its expansion plan and proposed use of proceeds could improve its business and financial performance, taking into account:

Applicant	Background and Decision
	(i) There was insufficient patient demand to justify upgrading equipment and facilities for advanced diagnosis services, considering Company AO's declining historical financial performance of its inpatient hospital services and outpatient clinic services, low bed utilisation rate and number of patient visits and there had been no sign of recovery. The reasons for such upgrade were unclear, as Company AO's hospitals primarily provided less complex treatments and focused on patients in local communities who preferred more affordable healthcare services; and (ii) Company AO had not clearly identified the criteria and the availability of the targets for merger and acquisition. No memorandum of understanding or agreement had been reached. It remained questionable whether Company AO could materialise its expansion plan. *Decision* 7. The listing application was rejected as Company AO and the sponsor failed to satisfactorily address the Exchange's concerns on business sustainability and the proposed use of proceeds.

See also Companies B and G under **Annex A.1** for listing decisions on trading record and financial eligibility.

Annex A.7 Material Reliance on Counterparties

Applicant	Background and Decision
Company A *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company A (a commodities trading company) had a short business relationship with its single largest customer, which contributed to more than 20%, 60% and 75% of Company A's total revenue during the track record period. 2. Company A's relationship with its single largest customer was not mutual and complementary as there were other suppliers like Company A located in the same area where the customer was based. 3. The credit period granted to its single largest customer was substantially longer than other customers, and therefore not on normal commercial terms. This had an adverse impact on Company A's working capital sufficiency. 4. Company A had no proven record of finding new customers to reduce reliance on its single largest customer. *Decision* 5. Company A failed to demonstrate that it would be able to reduce material reliance on its single largest customer and that its business would be sustainable. Accordingly, it was not suitable for listing.
Companies B, C and D *(Companies B and C were MB applicants, Company D was a GEM applicant) (2017)* Rule reference: MB Rule 2.06; MB Chapter 8 (GEM Rule 2.09; GEM Chapter 11)	*Background* 1. Company B was a property management company providing property management services to one single housing estate in Mainland China. 2. Company C was a printing company in Mainland China. 3. Company D was a licensed software developer in Hong Kong. 4. During the track record period, over 90% of each of the above applicants' revenue was generated from their largest customer and/or key product (as the case may be). 5. The applicants' reliance on their respective customers was not mutual and complementary (i.e. their respective customers were not reliant on them). 6. Company B relied on its one single housing estate and did not bid for any other estate during the track record period. 7. Companies C and D operated in an evolving technological and/or regulatory environment. However, they lacked experience in selling new/upgraded products and failed to attract new customers during the track record period. *Decision* 8. Companies B, C and D failed to demonstrate that they would be able to reduce material reliance on a single estate, customer or product after the track record period and that their businesses would be sustainable. Accordingly, they were not suitable

Applicant	Background and Decision
	for listing.
Company E *(GEM applicant) (2019)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company E (i) leased vehicles to car-hailing service providers in Mainland China; and (ii) assisted car purchasers in their applications for licence plates and mortgage loans (the "**Agency Services**"). Over 90% of Company E's profits during the track record period was derived from the Agency Services. 2. The Agency Services were primarily provided to customers of a dealership owned by Company E's controlling shareholder (the "**Connected Stores**"). During the track record period, the Agency Services relied on staff of the Connected Stores to solicit customers. Without the Agency Services, Company E would have recorded net losses in the track record period. 3. The Agency Services were commonly ancillary services provided by dealerships, rather than by a separate entity. Hence, the delineation of the Agency Services did not conform with industry norms. 4. The terms of the arrangement with the Connected Stores were not on normal commercial terms as evidenced by the cooperation agreements entered into between Company E and independent dealerships. *Decision* 5. Company E was not suitable for listing due to concerns regarding Company E's material reliance on its controlling shareholder and hence its business sustainability.
Company F *(MB applicant) (2022)* Rule reference: MB Rule 8.04	*Background* 1. Dr. F and his wife founded a medical specialist practice (under Company F) with two specialist clinics, where they were the respective sole resident medical specialists. 2. Throughout Company F's operating history, Dr. F and his wife generated over 90% of Company F's revenue. Particularly, Dr. F contributed around 70% to 80% of Company F's total revenue during the track record period. 3. To address the reliance concern, Company F hired an additional medical specialist (the "**New Hire**") in the last year of the track record period. However, revenue contributed by the New Hire was insignificant and Dr. F continued to contribute over 70% of revenue. 4. Company F had proposed plans to reduce reliance on Dr. F, such as recruiting eight new medical specialists and opening four new clinics within six months to three years after listing. *Decision* 5. The level of reliance on Dr. F and his wife (to a large extent, on Dr. F) was extreme given that the majority of the revenue generated during the track record period was attributable to Dr. F and his wife. Any material changes in the relationship with Dr. F (e.g. Dr. F ceasing to hold controlling interest in, or departing from, Company F) will

Applicant	Background and Decision
	have material adverse impact on Company F's business and financial conditions. 6. Company F failed to demonstrate that it had been and would be able to effectively mitigate its exposure to any material adverse changes to or termination of its relationship with Dr. F, given that: (i) Company F's operations were essentially a medical practice operated by two doctors who were husband and wife. In such context, a doctor's experience, skills and expertise were unique and critical to the past and future success of the medical practice, and the personal reputation and trust with patients that were built up by Dr. F and his wife over the years might not be transferrable to other doctors or replicated in other clinics. The fact that the New Hire (who had over 10 years of experience) only contributed minimal revenue might suggest that Company F was not able to reduce its reliance on Dr. F. (ii) Company F's plans to reduce reliance were preliminary and none would be materialised before listing, and the feasibility was also questionable. Since its establishment, Company F had only operated two clinics and it took four to six years for them to become successful. The proposed opening of additional clinics with new hires had not been executed and was not proven. It was questionable whether Company F could identify qualified specialists fit for their practice, or its management had adequate experience in developing and operating a chain of clinics, or given the distinct specialist area, whether there would be sufficient market demand to support its expansion plan. 7. Accordingly, Company F failed to demonstrate that its material reliance on Dr. F would not result in material adverse impact on its business sustainability. The extreme reliance on Dr. F could not be dealt with by disclosure and Company F was not suitable for listing.

See also Company A under **Annex A.9** for a listing decision on non-compliances.

Annex A.8 Persons with Significant Influence and Suitability of Directors

Applicant	Background and Decision
Company A *(MB applicant) (2015)* Rule reference: MB Rule 2.06, 3.08 and 3.09; MB Chapter 8	*Background* 1. Company A was engaged in wholesaling and retailing of goods. 2. A director who was also a controlling shareholder of Company A had made payments to an ex-government official who was then convicted of receiving bribes by a PRC court. *Decision* 3. Company A's listing application was rejected due to director's suitability concerns. The sponsor had not demonstrated that the director was able to meet the character and integrity standard requirements under the MB Rules even though the director had not been charged. Even if the director resigned from Company A, the director would continue to exert significant influence over Company A's operation and management since the director was a brother of one of the four executive directors and the director had worked with two out of three members of senior management of Company A for over 10 years.
Company B *(GEM applicant) (2016)* Rule reference: GEM Rule 2.09; MB Chapter 11	*Background* 1. Company B was an exhibition organiser. 2. Director B, one of Company B's directors, instructed Company B's subsidiaries to make two advances to third parties. The advances were significant to Company B, but were all unsecured, interest-free and with no fixed repayment terms. The advances exposed Company B to significant credit risks and were in violation of the relevant laws and regulations. 3. Director B also failed to notify the relevant subsidiaries of Company B of the partial repayments received by him and deposited into his personal account. 4. Further, Company B failed to comply with the relevant laws and regulations in six instances relating to its core business during the track record period. The systemic non-compliances were serious in nature and raised questions as to whether Company B's directors (including Director B) were suitable under GEM Rules 5.01 and 5.02. *Decision* 5. Company B's listing application was rejected as Director B was not considered suitable under GEM Rules 5.01 and 5.02 taking into account:

Applicant	Background and Decision
	(i) Director B's failure to fulfil his fiduciary duties as a director and to act in the interests of Company B in safeguarding its assets. It appeared that he was unaware of the outstanding balances of the relevant subsidiaries and failed to take any action to recover the long-outstanding balances. In addition, Director B only confirmed that he had received repayments during the preparation of Company B's listing which resulted in material misstatements in Company B's group audited accounts; and (ii) The systemic non-compliances related to Company B's core business and Company B had committed the same or similar non-compliances repeatedly during the track record period. Company B did not enhance its internal control to prevent reoccurrence of the systemic non-compliances until the Exchange raised query on them. In addition, Director B had over 25 years of experience in the exhibition industry and was expected to be familiar with the legal requirements related to Company B's business. As such, the occurrence of the non-compliances cast serious doubts on his competence and suitability in general.
Company C *(MB applicant) (2017)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company C was a PRC utility provider. 2. During the track record period, a number of Company C's directors and senior management were dismissed, as they (i) had been convicted of bribery relating to Company C's construction contracts with imprisonment sentences of over 10 years or life imprisonment; or (ii) were being investigated for receiving bribes from contractors or misappropriating Company C's properties. The misconduct of these former directors and senior management clearly indicated material weaknesses and deficiencies in Company C's internal control systems. This also cast doubt on the suitability of Company C's directors who were responsible for overseeing Company C's internal control measures to ensure that Company C was operating in a fully compliant manner. 3. Company C also failed to obtain the relevant construction permits before the commencement of construction/operation of the material plants. *Decision* 4. Company C's listing application was rejected since its directors were not considered suitable in view of the misconduct and non-compliances.
Company D *(GEM applicant) (2019)*	*Background* 1. Company D provided obstetrics and gynecology healthcare services in Hong Kong. 2. Mr. X (Company D's controlling shareholder, founder, chairman, executive director and chief executive officer) had previously been investigated for tax evasion. 3. Mr. X had reached a settlement with the tax authorities, but the authorities issued a letter stating that he had acted willfully with the intent to evade tax.

Applicant	Background and Decision
Rule reference: GEM Rule 2.09; GEM Chapter 11	*Decision* 4. Company D's listing application was rejected since Mr. X did not have the requisite level of honesty and integrity expected of an applicant's directors, having considered that: (i) The penalties levied on Mr. X represented 118% and 104% of the tax undercharged; and (ii) The tax audit spanned a period of five years, during which Mr. X was unable to substantiate to the tax authorities that he did not willfully intend to evade tax.
Company E *(GEM applicant) (2019)* Rule reference**:** GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company E was a sub-contractor for foundation works in Hong Kong. 2. Company E was jointly founded by Mr. Y and Mrs. Y in 1994. They collectively ran Company E until Mr. Y's retirement in 2014. 3. After retirement, Mr. Y maintained directorships in two of Company E's operating subsidiaries and also served as a senior consultant to Company E. 4. Over 20 years ago, Mr. Y was charged with over 10 counts of giving kick-backs to an employee of a customer to procure the award of construction contracts to the benefit of Company E. Mr. Y was convicted of bribery and imprisoned for one year. *Decision* 5. Company E's listing application was rejected on the ground of directors' suitability, taking into account: (i) Mr. Y could exert significant influence over Company E's operations and management. Specifically: (a) Mr. Y was the spouse of one of Company E's executive directors, a co-founder of Company E, the settlor of the family trust that held Company E's shares and a director of Company E's two major operating subsidiaries; and (b) Mr. Y had maintained a position as a member of senior management of Company E and had long-standing work history with other members of Company E's senior management; and (ii) Notwithstanding that Mr. Y's conviction occurred over 20 years ago, the bribery incidents (which involved dishonesty and fraud) reflected negatively on Mr. Y's character and integrity and gave rise to grave concerns on his suitability to act as a director of a listed company. The Exchange assessed director's suitability based on specific facts and circumstances of the case and the lapse of time was not the only fact taken into account to assess Mr. Y's suitability to act as a director.

Applicant	Background and Decision
	6. Company E also failed to demonstrate that it had proper and effective internal control measures to prevent Mr. Y from exerting significant influence over Company E that were commensurate with precedent cases.
Company F *GEM applicant (2019)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company F provided port logistics services in Singapore. 2. Mrs. Z was the founder, controlling shareholder, chairlady and executive director of Company F. 3. Mr. Z was the founder of Company F's sole operating subsidiary (the "**Subsidiary**"). Mr. Z no longer had a role in the Subsidiary, but he had been a director for 15 years of and was authorised to sign payment vouchers and cheques for the Subsidiary. 4. In 2010, Mr. Z was convicted of an offence of dishonesty involving the misappropriation of funds of another company. *Decision* 5. Company F's listing application was rejected since Mr. Z was a person with significant interest given his prior roles in the Subsidiary and his relationship with Mrs. Z and other senior management, and Mr. Z's misconduct made him unsuitable to be a director.
Company G *(MB applicant) (2020)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company G developed and sold residential properties in Mainland China. 2. During the track record period, Company G created a number of short-term inter-company loans on which it subsequently defaulted. The inter-company lender then assigned such defaulted loans to a distressed asset lender ("**Distressed Asset Lender**") with no discount on the principal. 3. The Distressed Asset Lender could only purchase distressed debt (i.e. debt for which default had already occurred) since it is a distressed asset lender. The financing arrangements with the Distressed Asset Lender accounted for substantially all of Company G's borrowings during the track record period. 4. Company G submitted that it was only able to obtain financing from the Distressed Asset Lender when it commenced operations, but it failed to explain why it could not obtain financing from other financial institutions after it became more established. As borrowing from the other financial institutions did not require an associated default, there would be no adverse impact to Company G's credit in that respect. 5. Company G could not demonstrate that the Distressed Asset Lender provided better terms than other commercial lenders nor that it was the only available lender. Loans from the Distressed Asset Lender incurred higher interest rates and additional financial advisory fees.

Applicant	Background and Decision
	Decision 6. Company G's listing application was rejected since it could not provide an explanation for the commercial reasons for its financing arrangements with the Distressed Asset Lender, which appeared to lack discernible benefit to Company G and seemed engineered to allow the Distressed Asset Lender to acquire the debts at the expense of Company G. These issues also gave rise to concerns on the suitability of the directors and whether they had acted in the best interests of Company G and its shareholders.
Companies H and I *(MB applicants) (2022)* Rule reference: MB Rules 3.08; 3.09	*Background* Company H and Mr. H 1. Mr. H was an executive director, the chairman and one of the founders and controlling shareholders of Company H. 2. According to the court judgment issued shortly before filing of Company H's listing application, Mr. A (a former PRC government official) was convicted of receiving a bribe around ten years ago from Mr. H in exchange for his assistance in Company H's application for certain government funding. 3. Mr. H was named as a witness, but was not prosecuted or convicted. However, the relevant court judgement stated that Mr. A's conviction was premised on the fact that Mr. A received a bribe from Mr. H. Company I and Mr. I 4. Mr. I was a director and a co-founder of Company I and intended to continue to serve as a director of Company I after its listing. 5. Mr. I was responsible for the overall management and strategic development of Company I's business. 6. Mr. C (a former director of Company I) made gifts and payments to Mr. B (a former PRC government official) to facilitate the regulatory approval process of Company I's products. These incidents took place over a period of seven years with the most recent incident occurring around six years before Company I's intended listing application. 7. According to the court judgment, Mr. B was convicted of receiving bribes from Mr. C. Mr. I and Mr. C were named as witnesses but were not prosecuted or convicted. 8. Mr. I was aware of Mr. C's plan to give bribes to Mr. B. *Decision* 9. The Exchange considered the following: (i) The board of directors of an applicant was responsible for directing and supervising the applicant's affairs and hence, could affect how the applicant conducted its business;

Applicant	Background and Decision
	(ii) The board of directors was entrusted with public funds, so it was imperative that the directors must be suitable in terms of character, experience, integrity and competence; (iii) Bribery was serious in nature and would raise a concern as to a director's character and integrity, and ability to fulfil a director's duties to act honestly, in good faith and for a proper purpose; (iv) The relevant court judgments stated that (a) Mr. H gave a bribe; and (b) Mr. I was aware of his fellow director's plan to give a bribe. Mr. H's direct involvement in bribery and Mr. I's lack of expression of disagreement and lack of action against bribery had impugned their character and integrity. The retention of office by Mr. H and Mr. I would be prejudicial to the interests of the shareholders of Company H and Company I, respectively; and (v) Mr. H was capable of continuing to exert significant influence over the operation and management of Company H even if he resigned as a director and from all management roles of Company H. 10. The Exchange determined that (i) Mr. H and Mr. I were not suitable to act as directors of an applicant under the Listing Rules; and (ii) given Mr. H's significant influence on Company H, Company H was not suitable for listing.

See also Company B under **Annex A.9** for a listing decision on non-compliances.

Annex A.9 Non-compliances

Applicant	Background and Decision
Company A *(MB applicant) (2015)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company A was a money lender which had not rectified all its non-compliances with local money lending laws before it applied to renew its money lender licence. It was therefore uncertain whether Company A would be able to renew its money lender licence. Further, there was insufficient information on whether and how the newly implemented internal control measures were effective to prevent future breaches. 2. Company A had also relied on its controlling shareholders for financial assistances during the track record period, namely: (i) financing its operation; (ii) referring customers with whom Company A had charged higher interest rates; and (iii) undertaking to acquire the collaterals for defaulted loans at a consideration no less than the outstanding loans and interests. As such, Company A's track record results did not reflect its true operating results given the undertaking by its controlling shareholders. Further, Company A could only secure financing at a high interest rate from a private lender, as opposed to a commercial bank. 3. There were also concerns on suitability of Company A's directors under MB Rules 3.08 and 3.09 as (i) two out of six executive directors had been involved in non-compliances with the SFO; and (ii) five out of six executive directors were also directors or senior management of other listed companies and it was questionable whether they would be able to devote sufficient time to manage Company A's business. *Decision* 4. The listing application was rejected due to the above concerns on non-compliances, reliance on controlling shareholders and directors' suitability.
Company B *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company B was a software solution provider and its major subsidiary had been involved in a number of non-compliances including, among other things, tax evasion. 2. Company B was unable to demonstrate that its directors did not have substantial involvement in the non-compliances. Given that the Exchange considered tax evasion as a serious matter and the amount involved was material (over 35% of Company B's net assets), the Exchange had serious concerns on the suitability of the directors under GEM Rules 5.01 and 5.02 in overseeing the operation of Company B's subsidiary. 3. Further, as one of the executive directors who had been personally involved in the non-compliances was the most relevant person responsible for Company B's operation and management, his resignation from directorship would render Company B unable to satisfy the management continuity requirement under GEM Rule 11.12A(3).

Applicant	Background and Decision
	Decision 4. The listing application was rejected due to non-compliances, failure to demonstrate directors' suitability and inability to meet the management continuity requirement.
Company C *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company C operated a property leasing business. It failed to comply with local building safety regulations with respect to a majority of its properties. There was uncertainty as to when the building orders against these properties would be released before listing and the potential impact on its business. *Decision* 2. The listing application was rejected due to non-compliances.

See also Companies A and C under **Annex A.1** for listing decisions on trading record and financial eligibility.

Annex A.10 Companies with Weighted Voting Rights Structures

Applicant	Background and Decision
Company A *(MB Applicant) (2022)* Rule reference: MB Rules 8.04, 8A.04, 19C.02	*Background* 1. Company A was a retailer based in Mainland China which sold lifestyle products (such as stationery and gifts, personal care products, home décor and electronics). 2. Company A operated its physical retail network under a franchise and distributorship model. Under the franchise model, the franchisees would purchase Company A's products and on-sell them to consumers at the retail store. Company A mainly assisted the franchisees in customising merchandise mix and monitoring store operations. Under the distributorship model, Company A sold the products to the distributors without any involvement in store and merchandise mix management. 3. During the track record period, (i) Company A's R&D expenses represented a very insignificant portion of its total operating expenses; and (ii) Company A used management systems and tools (which included its supply chain management system, digitalised consumer engagement and marketing tools and the application of artificial intelligence in store management) that were already well-established in the retail sector and commonly used among large-scale retailers. *Decision* 4. Company A failed to demonstrate that its franchise and distributorship model was a new and innovative business model given that many businesses in Mainland China adopted a similar approach for expansion. 5. Company A also failed to demonstrate that R&D was a significant contributor of its expected value and constituted a major activity and expense, and that it had implemented new technologies taking into account (i) and (ii) in paragraph 3 above.
Company B *(MB Applicant) (2022)* Rule reference: MB Rules 8.04, 8A.04, 19C.02	*Background* 1. Company B operated an automotive-related business in Mainland China. 2. In recent years, to complement its offline business, Company B introduced an online platform (e.g. a website) as an ancillary service to enable users to search for and compare products online. Despite the introduction of the online platform, the majority of Company B's sales transactions were generated from its offline network. *Decision* 3. Company B failed to demonstrate why the ancillary online platform was a new technology or innovation given that complementing the brick-and-mortar business with an online channel is common in Mainland China. 4. Company B's financial performance was on a decreasing trend, as demonstrated by a significant decrease in both revenue and gross profit margin by nearly half in the last two years of the track record period. Company B failed to demonstrate that it had a track record of high business growth and that its high growth trajectory was expected to continue.

Applicant	Background and Decision
Company C *(MB Applicant) (2022)* Rule reference: MB Rules 8.04, 8A.04, 19C.02	*Background* 1. Company C was a vocational education and training service provider in Mainland China which offered examination preparation courses through online and offline channels. 2. During the track record period, (i) while Company C's revenue increased, a significant majority of the revenue was generated from offline tutoring, and its gross profit decreased; and (ii) Company C's R&D expenses decreased by nearly two-thirds and its R&D expenses as a percentage of total operating expenses was lower than that of its peers. *Decision* 3. Company C failed to demonstrate that its success was attributable to the implementation of innovative technologies and business model for the following reasons: (i) the majority of revenue shifted from online education to offline education, which was very similar to conventional classroom-based education given that it did not involve the use of new technologies, innovations or a new business model; and (ii) the technologies adopted in its business were commonly used by the education sector in Mainland China and most of them were less advanced than those of its peers. Hence, Company C could not differentiate itself from other existing market players. 4. In addition, Company C could not establish that R&D was a significant contributor of its expected value and constituted a major activity and expense, and it failed to demonstrate that it had a track record of high business growth and that its high growth trajectory was expected to continue.
Company D *(MB Applicant) (2022)* Rule reference: MB Rules 8.04, 8A.04, 19C.02	*Background* 1. Company D was an electric vehicle ("**EV**") manufacturer in Mainland China and it recorded decent growth in sales of EVs during the track record period. 2. During the track record period, Company D mainly sold its vehicles through car dealers and adopted the direct-sales model recently. It co-operated with third parties to co-develop new technologies and innovations which were to be adopted in future vehicle models. However, its R&D expenses was on a decreasing trend and, as a percentage of total operating expenses, it decreased by nearly half during the track record period and was also lower than its peers. *Decision* 3. Whilst the EV industry was widely considered to be an emerging sector at the material time, the question of whether a company was eligible for listing with a WVR structure remained subject to its ability to satisfy the requirements based on individual facts and circumstances. Company D failed to demonstrate that it had a new business model or technologies that could differentiate itself from other existing players (which exhibited a higher growth trend with newer car models) or that it would be able to sustain growth with updated car models. In particular, its business model (i.e. sales through car dealers and direct-sales) was not new in the industry and it failed to differentiate itself from other existing market players.

Applicant	Background and Decision
	4. In addition, Company D could not establish that R&D was a significant contributor of its expected value. In particular, the new technologies and innovations to be adopted in future vehicle models were co-developed with third parties; and Company D had yet to record any revenue from the sales of new vehicle models.
Company E *(MB Applicant) (2022)* Rule reference: MB Rules 8.04, 8A.04, 19C.02	*Background* 1. Company E was initially engaged in the provision of third-party payment services and general trading. Mr. E was Company E's founder and the proposed WVR beneficiary. Since the first year of the track record period, Company E acquired a number of businesses involved in the provision of cloud-based e-commerce solution services using data analytics and AI technologies to merchants, which subsequently became Company E's core business (the "**Core Business**"). *Decision* 2. Company E failed to demonstrate that Mr. E had been materially responsible for the growth of Company E and/or the Core Business, which was one of the key requirements for qualifying as a WVR beneficiary in light of the following facts: (i) The growth of Company E was mainly attributed to the acquisition of the Core Business; and (ii) The Core Business was not established by or primarily developed under the management of Mr. E.

Annex A.11 Biotech Companies

Applicant	Background and Decision
Company A *(MB applicant) (2022)* Rule reference: MB Rule 18A.01	*Background* 1. Company A was a biotech applicant under MB Chapter 18A. It had identified Product X (a biologic product) as one of its Core Products for the purpose of the proposed listing. 2. Company A conducted the Phase 1 clinical trial on Product X under the Therapeutic Goods Administration ("**TGA**") in Australia ("**TGA Trial**"). Subsequently, Company A decided to conduct the global pivotal Phase 2/3 clinical trials on Product X in multi-centres, including the European Union and Mainland China markets. Prior to the completion of the TGA Trial, Company A requested a rapid scientific advice (RSA) from the European Medicines Agency ("**EMA**") and initiated the investigational new drug (IND) application with the National Medical Products Administration ("**NMPA**"). 3. Company A submitted the clinical trial designs and data for the TGA Trial and the global pivotal Phase 2/3 clinical trials on Product X to both the EMA and the NMPA. After reviewing the materials on the clinical data of the TGA Trial and protocol of the global pivotal Phase 2/3 clinical trials, both the EMA and the NMPA confirmed their acknowledgement and acceptance of the results of the TGA Trial and that they had no objection for Company A to progress to the pivotal global Phase 2/3 clinical trials on Product X. 4. Subsequently, Company A had obtained approval from both the EMA and the NMPA to commence the global pivotal Phase 2/3 clinical trials on Product X. *Decision* 5. Based on the specific facts and circumstances, the Exchange was satisfied that the TGA Trial (which was not a clinical trial regulated by a Competent Authority recognised under MB Chapter 18A) on Product X met the "Clinical Trial" milestone requirements of a Core Product under **Chapter 2.3** given both the EMA and the NMPA (both being Competent Authorities under MB Chapter 18A) had: (i) Reviewed and taken into account the clinical trial design and data of the TGA Trial in granting their approval for Company A to commence the global pivotal Phase 2/3 clinical trials on Product X; and (ii) Confirmed their acknowledgement and acceptance of the results of the TGA Trial and that they had no objection for Company A to progress to the pivotal global Phase 2/3 clinical trials on Product X based on the clinical results of the TGA Trial. 6. Such conclusion was specifically related to Product X and did not result in the TGA being generally recognised as a Competent Authority for the purpose of MB Chapter 18A, and/or a clinical trial conducted under the TGA being generally accepted as a trial regulated by a Competent Authority.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 399

Annex A.12 Mineral Companies

Applicant	Background and Decision
Company A *(MB Applicant) (2013)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company A was a Mineral Company with its principal asset being an exploration stage mineral project that had not generated any profit (the "**Project**"). 2. Company A's first listing application was not approved due to insufficient history and experience in bringing any mineral project to the production stage; and the early stage of the development of the Project. 3. Company A completed a Pre-feasibility Study of the Project and resubmitted its listing application two years after its first application. 4. Most of the original development plan was delayed by more than two years, and the economic estimates of the Project were substantially revised. 5. Total capital cost for the Project increased over 100%, the estimated mine life reduced from 17 years to nine years, meanwhile the payback period was seven years and the internal rate of return was 6.7%. 6. Company A only had limited cash balance and no banking facility. It expected it would only be able to obtain a banking facility after the Project had completed a further feasibility study. *Decision* 7. The listing application was rejected because Company A was not qualified for a waiver under MB Rule 18.04 as it had not demonstrated that its principal assets had a clear path to commercial production: (i) There was high risk concerning the project payback period as the Project was highly sensitive to variations in commodity prices, operating costs, the estimated lengthy payback period and low internal rate of return; (ii) The proposed funding plan was overly ambitious. The funds to be raised in the proposed offering were insufficient to bring the Project to a stage of commercial production and further fund raising exercises of a considerable scale would be required post listing; and (iii) Given the outstanding issue regarding aboriginal rights, which was subject to the local government's consultation with indigenous groups prior to the approval of the Project, there was a high degree of uncertainty as to whether Company A was able to obtain the necessary mining permits and licences to commence commercial production.
Company B *(MB Applicant) (2015)*	*Background* 1. Company B was a Mineral Company.

Applicant	Background and Decision
Rule reference: MB Rule 2.06; MB Chapter 8	2. Its principal operations and assets were located in a jurisdiction with significant legal and political uncertainties and a high Corruption Perceptions Index in accordance with Transparency International. 3. There were repeated delays in the trial production schedule for a major project during and after the track record period, and its other mining projects had ceased operations after the track record period pending renewal of its exploration licence which had been outstanding since its listing application. *Decision* 4. The listing application was rejected due to the extreme uncertainties that rendered Company B not suitable for listing. The uncertainties and concerns arising from the jurisdiction in which Company B operated gave rise to questions as to whether Company B could carry out its business in a viable manner or retain ownership of its assets.
Company C *(MB Applicant) (2015)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company C was a mining company. 2. Its mine commenced commercial production in 2014 and recorded immaterial revenue in 2014 and in the first half of 2015. 3. Company C applied for a waiver from the strict compliance with the requirements of MB Rule 8.05 under MB Rule 18.04. *Decision* 4. The listing application was rejected because Company C was not able to meet the requirement under MB Rule 8.05(1). Company C was also not qualified for a waiver under MB Rule 18.04 as it had not demonstrated that its mine had a clear path to commercial production: (i) There was insufficient justification for Company C's breakeven analysis to substantiate its mine's profitability; (ii) Company C had not demonstrated that it was able to generate sufficient funding for a proposed increase in its annual designed mining capacity where approximately half of the required funding had to be derived from Company C's operating activities and/or future fund raisings. There were extreme uncertainties as to whether Company C had demonstrated its ability to sell its products as: (a) It only had four customers during the track record period and all the sales agreements would expire in 2016; (b) It had not fulfilled any of its existing sales commitments since it commenced commercial production in 2014; (c) It was not able to demonstrate there would be sufficient demand for its products; and

Applicant	Background and Decision
	(d) It estimated an ambitious increase in sales volume of its low value by-product in 2017 (17 times) as compared with that in 2016 with no supporting data; and (iii) In addition, there were uncertainties as to whether Company C would be able to renew its mining permit as, in light of the above, it may not have sufficient funds to design and/or construct the relevant facilities and pay relevant fees and taxes.

Annex A.13 History and Development

Applicant	Background and Decision
Company A *(MB applicant) (2005)* Rule reference: MB Rules 8.05(2)(b), 8.05(2)(c)	*Background* 1. Before the reorganisation, there was a lack of a single legal structure among Subsidiary X, Subsidiary Y and Subsidiary Z (collectively, the "**Subsidiaries**"). These subsidiaries with different principal activities had been separate entities held by their respective shareholders: 2. The Subsidiaries came together as an integrated enterprise for a number of years prior to the track record period. Shareholder YY contributed its operating and management expertise and Shareholder XX contributed the required funding for the business to acquire revenue generating assets. To expand the business operations, Shareholder XX, Shareholder YY and Shareholder ZZ contributed additional capital to acquire revenue generating assets. 3. The operation and management of the assets of Company A and its subsidiaries were delegated to Subsidiary Y through management contracts. Shareholder YY was in charge of the day to day management of Company A's business, including Subsidiaries X and Z. Shareholder XX paid incentives to Shareholder YY for its performance as manager of Subsidiary X. 4. Shareholder XX was involved in the strategic decision making of the group's business as a whole. He had exerted substantial influence over the management of the business since its inception through various provisions under the management contracts, including (i) prior approval of Shareholder XX was needed for major transactions, corporate actions and/or policy decisions; (ii) Shareholder YY would not independently invest in any competing business without Shareholder XX's consent; (iii) Shareholder XX and Shareholder YY held regular meetings to discuss the group's affairs; and (iv) Shareholder YY had to regularly report to Shareholder XX, including business opportunities identified. 5. Shareholder XX and Shareholder YY had also entered into a drag-along agreement whereby they would sell all or a significant part of their business together. 6. Subsidiary Z was tied to Subsidiary Y through the management contracts and by its ownership structure. Shareholder YY controlled the board composition of and held all voting rights in all members (save for one) in Subsidiary Z. The role of Shareholder ZZ in the business was limited solely to funding part of the acquisition costs of new assets.

Entities	Shareholders	Principal Activities
Subsidiary X	Shareholder XX	Owned most of the revenue generating assets
Subsidiary Y	Shareholder YY	Provided management services to the Subsidiaries
Subsidiary Z	Shareholder YY and Shareholder ZZ	Owned the remaining revenue generating assets

Applicant	Background and Decision
	Decision 7. There was a high degree of integration and cooperation among the entities which together formed a unified group. Management continuity was demonstrated through different groups throughout the track record period. In particular: (i) Shareholder XX had demonstrated continuous ownership of Company A throughout the last financial year of the track record period and Shareholder XX was and would be the largest group of shareholders before and after the reorganisation; and (ii) Shareholder YY had, through participation on boards of directors and the management contracts, in fact managed the Subsidiaries comprising Company A throughout the track record period and would after the reorganisation have majority representation in the board of Company A. 8. Based on the above, the Exchange accepted the sponsor's submissions that the present structure was driven by commercial considerations related to the efficient growth and development of the business that formed the subject matter of listing, and the reorganisation was not found to be a combination of different and unrelated businesses purely for the purpose of "packaging" the businesses for meeting the eligibility requirements. As such, these entities could be viewed together as a group throughout the track record period for meeting the management and ownership continuity and control requirements under MB Rules 8.05(2)(b) and 8.05(2)(c).
Company B *(MB applicant) (2009)* Rule reference: MB Rule 8.04	*Background* 1. Company B was a company with no track record. Its controlling shareholder ("**Parentco**") was listed on a foreign stock exchange. Parentco proposed to spin off its operation in Country Y to be acquired by Company B, as part of reorganisation, from Parentco using the listing proceeds. 2. Parentco proposed to complete the reorganisation immediately after listing because the reorganisation was solely to effect the separate listing of Company B. Without Company B's listing, Parentco would not adopt such corporate structure. The proposed reorganisation did not affect Company B's ability to satisfy the ownership and management continuity requirements. 3. To ensure there would be sufficient financial information on the subject matter of the listing, the listing document would include: (i) Stand-alone accountants' report on Company B; (ii) Combined historical financial information of the business to be acquired from Parentco (i.e. the spun-off entity), the subject of the listing; and (iii) Proforma financial information for the post-IPO group reflecting the application of the IPO proceeds and the acquisition of the spun-off entity from Parentco in accordance with MB Rules 4.28 and 4.29, except that it would only reflect the changes to Company B's equity and additional paid-in capital. The exception was acceptable because the acquisition would have no impact on the proforma financial results and cash flows.

Applicant	Background and Decision
	Decision 4. The Exchange allowed Company B's reorganisation to be completed immediately after listing subject to: (i) Disclosure in the listing document on the steps of the reorganisation and that the reorganisation would only complete immediately after listing; (ii) Effective mechanism to ensure that the reorganisation would take place immediately after listing and that the listing proceeds would be applied as disclosed in the listing document; (iii) All governmental and third party approvals and consents for the listing and reorganisation should be obtained before the listing document date; and (iv) Confirmations from directors, sponsor and legal advisers to the Exchange and announcement by Company B on due completion of the reorganisation on the listing date.
Company C *(MB applicant) (2015)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. The listing application involved a very substantial acquisition of two companies ("**Target Groups**") which would make up the Company C's business upon listing. The Target Groups had been held by different controlling shareholders and managed by different individuals during the track record period. 2. Company C failed to demonstrate compliance with the ownership continuity and control requirement during the most recent financial year under MB Rule 8.05(1)(c) as: (i) There were and would be changes in the legal ownership and control in the Target Groups during the relevant period and upon completion of the very substantial acquisition; and (ii) There was no conclusive evidence that the controlling shareholder of Company C had been exercising control over the Target Groups during the relevant period through cooperation with the controlling shareholders of the Target Groups. 3. The Target Groups were able to comply with MB Rule 8.05(1)(a) only by aggregating their net profits during the track record period. However, there was no information to show that the Target Groups had been operated and managed as a single group during the track record period given that: (i) The Target Groups only had one common senior management member and did not share any support function during the track record period; and (ii) The financial statements of the Target Groups were presented in two separate accountants' reports. The reporting accountants stated that the Target Groups' financial information could not be presented in one accountant's report because there was no common control.

Applicant	Background and Decision
	Decision 4. Company C failed to demonstrate compliance with the ownership continuity and control requirement. Further, the Exchange did not accept the aggregation of the results of separate groups of companies presented in separate accountants' reports for the purpose of MB Rule 8.05(1)(a). This was to prevent packaging of businesses where acquisitions were made by an applicant solely for the purpose of satisfying the listing requirements.
Company D *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company D had five major subsidiaries split between Hong Kong and Mainland China, namely the "HK Group" and the "PRC Group". 2. Company D marginally met the minimum profit requirement under MB Rule 8.05(1)(a) and neither of its HK Group or PRC Group was eligible for listing on a stand-alone basis. 3. The HK Group was wholly owned by Mr. A, whilst the PRC Group was wholly owned by Mr. B and Mrs. B. Following a reorganisation in 2017, interests in the HK Group and the PRC Group were transferred to Company D; and Company D was owned 90% by Mr. A and 10% by Mrs. B. 4. A confirmation deed was executed in the third year of the track record period by Mr. A, Mr. B and Mrs. B, acknowledging their cooperative business arrangements since 2011 and that they had historically acted in concert in managing the affairs of each group. 5. Notwithstanding the confirmation deed, Company D could not otherwise demonstrate that the HK Group and the PRC Group had in fact been operating as an integrated group, given that the respective controlling shareholder of each group company did not hold any equity interest, directorship or managing role in the other group company, and no formal agreements were available to evidence the rights of either controlling shareholder in any profit or losses in the other group company. *Decision* 6. Company D failed to demonstrate that different companies restructured under the listing group had operated as a single economic unit during the track record period, leading to the view that the reorganisation had been done solely to meet the eligibility requirements.

Annex A.14 Continuing Connected Transactions

Applicant	Background and Decision
Company A *(MB applicant) (2010)* Rule reference: MB Rule 14A.53(1)	*Background* 1. Company A was granted a 20-year licence by the local government for its operation. The unexpired licence term was over 10 years when Company A applied for listing. 2. Company A proposed to continue with the corresponding licence agreement with its parent company ("**Parentco**") for the use of certain intellectual property rights (which were crucial to Company A's business) for an indefinite term for a monthly royalty fee based on Company A's gross revenues. 3. Company A applied for a waiver from the requirement to set a monetary annual cap under MB Rule 14A.53(1) such that it would be allowed to set the annual cap to be set as a percentage of its gross revenues. Company A also indicated that it would restructure the terms of the licence agreement with Parentco to meet the Exchange's criteria for granting the waiver. *Decision* 4. Company A was granted a waiver from MB Rule 14A.53(1) and allowed to express its annual cap as a percentage of its gross revenues on the following basis: (i) The non-monetary annual cap waiver granted would be for a fixed term with the Parentco corresponding with the remaining licence term of the agreement with the local government (instead of the proposed indefinite term). Upon expiry of the waiver, the license agreement would only continue if approved by Company A. Company A had to comply with the Listing Rules or obtain a new waiver; (ii) Parentco would need Company A's prior consent if it wanted to terminate the licence agreement. Overlapping directors must not vote on any resolution to give consent to the termination; (iii) The listing document would clearly disclose the basis of the royalty fee calculation during the track record period and going forward. Company A would separately disclose the same and related amounts in its future interim and annual financial statements; (iv) Any change to the basis of calculating the gross revenues would be subject to shareholders' approval; (v) The setting of the non-monetary annual cap was reviewed by an independent appraisal agent using market comparables; (vi) The directors of Company A (including independent non-executive directors) confirmed that the long duration of the licence agreement and the non-monetary annual cap were fair and reasonable to Company A and shareholders as a whole; and (vii) The sponsor confirmed in the listing document that: (a) The non-monetary annual cap was fair and reasonable and in the interests

Applicant	Background and Decision
	of the shareholders as a whole; (b) It was normal business practice for licence agreements to have a long duration; and (c) The terms of the licence agreement were in the ordinary and usual course of Company A's business, on normal commercial terms, and the terms were fair and reasonable and in the interest of shareholders as a whole, and it was normal business practice.

Annex A.15 Pre-IPO Investments

Applicant	Background and Decision
Company A *(MB applicant) (2004, updated rule reference in 2009)* Rule reference: MB Rules 2.13, 8.04, 8.05(1)(c), 11.07	*Background* 1. To prepare for the IPO of the shares of Company A (the "**Shares**"), a group reorganisation was effected shortly before the IPO. 2. Pursuant to the reorganisation, the shares of the only operating company of Company A (the "**Principal Subsidiary**") were exchanged for the Shares of Company A, such that, at the time of listing, Company A became the holding company of the Principal Subsidiary and the shareholders of the Principal Subsidiary became the shareholders of Company A. 3. The pre-IPO shareholders had previously acquired the shares of the Principal Subsidiary (through share acquisitions and injections of capital) at different times during the track record period but all shortly before the IPO. 4. The consideration paid for each of the acquisitions and injections of capital by the pre-IPO shareholders was established by reference to the total net asset valuation of the shares of the Principal Subsidiary as valued by independent valuers at the relevant time. 5. Independent valuations were required as the transactions involved disposals of assets by vendor companies which were PRC state-owned enterprises ("**SOEs**"). 6. There was a material difference in the net asset value shown in the accountants' report included in the listing document prepared for the IPO and the net asset value of the Principal Subsidiary as shown in the valuation reports prepared by independent valuers for share acquisitions by pre-IPO investors shortly before the IPO. All the valuations were purported to establish the net asset value of essentially equivalent assets, yet the valuations had increased substantially within a short interval. 7. There was a material disparity between the IPO price of the Shares and the effective cost of acquisition of the Principal Subsidiary's shares by the pre-IPO shareholders. 8. The material difference in the asset valuations occurring within such a short period of time gave rise to a few concerns: (i) Whether the interests of the PRC SOE vendor companies which disposed the shares of the Principal Subsidiary might have been unfairly prejudiced, which led to the question of whether the disposals by those PRC SOEs could be legally challenged; (ii) The significant difference in value between the IPO price of the Shares and the effective cost of pre-IPO shareholders of the shares acquired by them meant that new purchasers of the Shares would suffer a material degree of dilution in share value (by comparing the IPO price to the pro forma adjusted combined net tangible book value of the Shares as stated in the listing document); and

Applicant	Background and Decision
	(iii) The pre-IPO shareholders would experience a gain in share value from their recent pre-IPO acquisitions of shares of the Principal Subsidiary at a price based on a substantially lower net asset valuation. *Decision* 9. The Exchange took into account: (i) The requirement that shareholders of an applicant have good title to the shares that are free from third party claims. The burden of proof is on the sponsor and the applicants' directors to demonstrate that the pre-IPO shareholders of an applicant hold the shares in good faith and in accordance with all relevant laws and regulations with supporting evidence; and (ii) If there is a material difference in the valuations of all or a material portion of the assets of the applicant or those of its predecessor within a short period of time prior to listing, such facts would give rise to a concern of whether the title to the shares of the applicant or of its predecessor could be challenged by the vendors of those shares due to undervalued pre-IPO sale and purchase transactions. The Exchange was empowered under the Listing Rules to require a higher level of assurance from the applicant and its professional advisers to ensure the legality of all previous acquisitions of or injections of capital for shares in any member of the group before listing. 10. In view of the above, Company A and its sponsor and professional advisers were required to demonstrate to the Exchange the legality of the various pre-IPO share acquisitions and injections of capital in the Principal Subsidiary shortly before listing that resulted in the material disparity in the valuations of the Shares within a short period of time. Based on the further submissions from the sponsor and the legal opinions of the PRC legal adviser that Company A had complied with all relevant PRC laws and regulations, the Exchange was satisfied that Company A had provided proper evidence to demonstrate legality of the pre-IPO share acquisitions and injections of capital. 11. Given the material disparity in pricing, the Exchange expects that the applicant's directors and sponsor assume responsibility under MB Rules 2.13 and 11.07 to ensure that such material information is included prominently in the listing document. In addition, the listing document was required to include the following prominent disclosures and add corresponding risk factors, where relevant: (i) Statements regarding the legality of the acquisitions of shares and injections of capital in the Principal Subsidiary prior to listing; (ii) The historical costs paid by the pre-IPO shareholders and the valuations of the Principal Subsidiary at different points of time; and (iii) Quantitative disclosure of the dilution in share value that new investors purchasing Shares at the IPO would suffer. In the present case, the dilution in share value should be expressed as a comparison between the IPO price and the pro forma adjusted combined net tangible book value immediately after the IPO on a per share basis.

Applicant	Background and Decision
	12. It is the general practice for the cost of investment in the shares of the applicant, in total and in per share basis, to be disclosed in tabular format.
Company B *(MB applicant) (2011)* Rule reference: MB Rules 2.03(2), 2.03(4)	*Background* 1. Company B entered into a loan agreement with independent third parties ("**Lenders**"). 2. The loan was conditional on the controlling shareholders issuing Warrants A and Warrants B ("**Warrants**") to the Lenders. 3. The terms of the Warrants enabled the Lenders to exercise Warrants A in whole or in part to purchase up to 12% of Company B's enlarged issued share capital at a pre-determined price upon listing. 4. The Lenders could also exercise Warrants B to acquire less than 1% of Company B's enlarged issued share capital for free once the IPO price of Company B's shares was finalised. 5. The Lenders could also opt for cash settlement in lieu of shares. 6. More than 28 days before Company B submitted its listing application, the loan had been fully drawn down but the Warrants remained exercisable on the date of the listing application. *Decision* 7. The Exchange considered the following and determined that the Pre-IPO Investment Guidance (as defined in **Chapter 4.2**) was applicable to the issue of shares upon exercise of the Warrants: (i) The Warrants would entitle the Lenders to Company B's shares shortly before its listing and thus constituted a pre-IPO investment; (ii) The loan and the Warrants were separate transactions, although the issue of the Warrants was one of the conditions precedent to the loan agreement; (iii) The injection of the loan was not a settlement of the consideration for the shares under the Warrants; and (iv) As the Lenders had not settled the consideration for the shares under the Warrants more than 28 days before Company B submitted its listing application, the pre-IPO investment in Company B was not considered completed as the funds had not been irrevocably settled and received by Company B. *Developments after the decision* 8. The Exchange requested Company B to adjust the terms of the pre-IPO investment to comply with MB Rules 2.03(2) and 2.03(4) or defer its listing date to six months after the payment date.

Applicant	Background and Decision
	9. The Lenders and the controlling shareholders cancelled the Warrants, with the latter compensating the Lenders with cash. As Company B would not be the party to compensate the Lenders, the Exchange considered that the interests of the investing public were not prejudiced. 10. Since an interest expense arising from the Warrants had been recognised and was reflected in Company B's profit forecast, the Exchange requested Company B to make prominent disclosure of the expense in its listing document, including a subsequent event disclosure in the accountants' report.

Annex A.16 Liquidity Arrangements for Listing by Introduction

Applicant	Background and Decision
Company A *(MB applicant) (2013)* Rule reference: MB Rules 2.04, 4.01(1), 7.14, 7.15, 8.06, 8.08(1)(b)[1], 8.08(3), 19A.13A, 19A.18(1); paragraph 37 of MB Appendix D1A	*Background* 1. Company A was incorporated in Mainland China and both its A shares ("**A Shares**") and its B shares ("**B Shares**") had been listed on a PRC stock exchange for more than ten years. 2. Company A proposed to convert its entire B Shares into H shares ("**H Shares**") and sought a listing of the H Shares on the Main Board by way of introduction (the "**Proposed Introduction**"). Its B Shareholders could choose to become H Shareholders or sell their B Shares before the Proposed Introduction to an independent third party (the "**Third Party**") to be arranged by Company A (the "**Cash Offer**"). 3. All the H Shares (representing about 50% of Company A's total issued shares) would be registered on the Hong Kong share register, and apart from the H Shares held by the existing substantial shareholders (representing about 30% of Company A's total issued shares) which were subject to voluntary lock-up, all the H Shares would be available for trading on the Exchange. 4. To ensure adequate liquidity in the trading of H Shares upon the Proposed Introduction, Company A proposed to procure at least 300 public B Shareholders to deposit the converted H Shares in broker accounts opened in Hong Kong, and those converted H Shares would have a minimum market capitalisation of HK$1 billion and be ready to trade on the Exchange upon the Proposed Introduction (the "**Proposed Arrangement**"). These H Shares would be well above the latest 30-day accumulated trading volume of the B Shares on the PRC stock exchange and the required minimum market capitalisation of shares held by the public of HK$50 million under MB Rule 8.09(1)[2]. 5. The Cash Offer was not considered marketing activities of Company A's shares in Hong Kong before listing given that it would be completed in Mainland China before the Proposed Introduction. In addition, the Cash Offer was to protect the B Shareholders' interests if they did not intend to convert their B Shares into H Shares, and therefore it should not be deemed as a situation involving "marketing" or "pre-existing intention to dispose of securities" under MB Rule 7.15. 6. Company A would disclose: (i) In its listing document, the Proposed Arrangement and a risk factor that its effectiveness might be subject to limitations, and the historical share price and trading volume of the B Shares by month for the last five years; and

[1] In August 2025, MB Rule 8.08(1)(b) was repealed. MB Rule 19A.13A(2) requires that where an applicant is a PRC issuer with other listed shares (as defined in MB Rule 19A.04 (GEM Rule 25.04(3)(b))) at the time of listing (e.g. an A+H applicant), the portion of H shares for which listing is sought that are held by the public, at the time of listing, must (i) represent at least 10% of the applicant's total number of issued shares in the class to which H shares belong (excluding treasury shares); or (ii) have an expected market value of not less than HK$3 billion.

[2] With effect from 15 February 2018, MB Rule 8.09(1) was revised such that the minimum public float value of securities was increased to HK$125 million.

Applicant	Background and Decision
	(ii) By way of announcements on the websites of both the Exchange and the PRC stock exchange, the closing prices of the A Shares and B Shares on each of the three trading dates immediately before the Proposed Introduction. 7. Company A applied for waivers from strict compliance with certain requirements under the MB Rules, including the following: (i) Minimum public float requirements (in the event of non-compliance with those requirements after the Cash Offer): (a) MB Rule 8.08(1)(b)[1] to allow a minimum H Share public float of 10% with a market capitalisation of about HK$3 billion; or[3] (b) MB Rule 8.08(3) so that the aggregate shareholding of the three largest public shareholders would not exceed 65% of the total H Share public float upon the Proposed Introduction. (ii) Financial statement requirements: (a) MB Rule 4.01(1) and paragraph 37 of MB Appendix D1A so that the accountants' report would be replaced by Company A's published financial statements for the latest three financial years (the "**Historical Financial Information**"); and (b) MB Rule 8.06 to disclose interim financial information for the current financial year which had not been audited or reviewed by the reporting accountants ("**Interim Financial Information**"). (iii) Residency of INED (a) MB Rule 19A.18(1) so that Company A was not required to have an INED who is ordinarily resident in Hong Kong until its next annual general meeting ("**AGM**"). 8. The Exchange considered the following facts and circumstances in determining whether to grant the requested waivers: (i) Minimum public float requirements: (a) The Proposed Arrangement indicated that there would be sufficient liquidity in the H Shares. (b) If the requested 10% H Share public float waiver was granted, the market capitalisation of the 10% H Share public float would be about HK$3 billion. If the requested waiver to allow the aggregate shareholding of the three

[3] Company A only needed one of the following two waivers after completion of the Cash Offer:
(i) If the Third Party acquired 10% or more of the total issued shares, it would not be regarded as a public shareholder and Company A would require a minimum public float (MB Rule 8.08(1)(b) which was repealed in August 2025) waiver as it would only have an H Share public float of about 10%; or
(ii) If the Third Party acquired 9.99% or less of the total issued shares, it would be regarded as a public shareholder and Company A would be able to maintain an H Share public float of about 20% but would require a waiver on aggregate shareholding of the three largest public H Shareholders (MB Rule 8.08(3)) as the shareholding of its three largest public H shareholders would exceed 50% of the public float.

Applicant	Background and Decision
	largest public shareholders not exceeding 65% of the total H Share public float was granted, the market capitalisation of H Share public float excluding the three largest public H Shareholders would be about HK$2 billion. The market capitalisation of the relevant H Share public float under both circumstances would be well above the minimum public float market capitalisation of HK$50 million under MB Rules 8.08(1)(b)[1] and 8.09(1)[2]. (c) Company A had a B Share public float of about 20%, more than 60% of them were held by investors outside the PRC. (d) Company A had undertaken to increase the H Share public float to 15% as required under MB Rule 8.08(1)(b)[1] within one year from the Proposed Introduction, subject to the China Securities Regulatory Commission's approval. (e) Company A was a listed company with a market capitalisation of about HK$30 billion. (ii) Financial statements requirements: (a) The Proposed Introduction would not involve any new investors and all the existing shareholders had already been provided with the Historical Financial Information[4]. The same financial information would be provided to Hong Kong investors as to Company A's existing shareholders. If an accountants' report were to be prepared for Company A, no adjustment to the Historical Financial Information was expected. (b) Company A and its sponsor considered that the Historical Financial Information would provide adequate and sufficient information on its performance and financial position during the track record period to its existing shareholders and Hong Kong investors. In addition, Company A would disclose in its listing document a directors' confirmation that all material information had been included in the listing document and the information contained was accurate and complete in all material respects and not misleading or deceptive. (c) Company A's auditors and reporting accountants would provide it and its sponsor with a comfort letter with respect to the Interim Financial Information based on certain agreed upon procedures performed under China Certified Public Accountants Reviewing Standards No. 2101 Review of Financial Statements and the Interim Financial Information was for the interim period ended two months before Company A's listing document. (iii) Residency of INED: (a) Company A required more than three months to appoint an additional INED who is ordinarily resident in Hong Kong. The term of the current board would expire in the forthcoming AGM to be held within five months after

[4] The Historical Financial Information had been prepared under China Accounting Standards for Business Enterprises (acceptable accounting standards for PRC issuers under MB Rule 4.11) and audited by an approved PRC auditor under MB Rule 19A.08.

Applicant	Background and Decision
	the Proposed Introduction and Company A undertook to appoint an INED who is ordinarily resident in Hong Kong at the AGM. (b) Company A proposed to appoint professional parties which were familiar with business, legal and regulatory issues in Hong Kong such as a Hong Kong legal adviser so long as Company A was listed on the Exchange. 9. Company A subsequently withdrew the public float waiver applications as soon as it became aware that it had sufficient public float under MB Rules 8.08(1)(b)[1] and 8.08(3) after the Cash Offer. *Decision* 10. The Exchange considered Company A's listing by way of the Proposed Introduction acceptable based on the particular facts and circumstances. 11. The Exchange agreed to grant the requested waivers to Company A having considered the particular facts and circumstances. The waivers granted should not be treated as precedents for other companies seeking to convert their B shares into H shares and waiver applications of future cases would be considered on a case-by-case basis.

Annex A.17 Restrictions on Share Issuance/Disposal by Applicants and Existing Shareholders

Applicant	Background and Decision
Company A *(MB applicant) (2005)* Rule reference: MB Rules 10.07, 10.08	*Background* 1. More than six months prior to the hearing of Company A's listing application, Company A issued a certain amount of convertible notes ("**Convertible Notes**") to pre-IPO investors ("**Pre-IPO Investors**"). 2. The terms of the Convertible Notes provided that, unless otherwise redeemed by Company A, all the outstanding principal amount and accrued interest would automatically be converted into shares of Company A ("**Shares**") at the IPO offer price upon or shortly after the listing (being the third business day after delivery of a written notice by Company A to the Pre-IPO Investors confirming that the Exchange had approved its listing). 3. As submitted by the sponsor and Company A: (i) A substantial portion of the proceeds from issuance of the Convertible Notes had been used in the acquisition of a company by the Group; (ii) The Pre-IPO Investors decided to invest in Company A because of the investment return of the Convertible Notes and the business potential of the Group; (iii) The directors of Company A considered that the issue of the Convertible Notes was a strategic step to enhance the Group's relationship with the Pre-IPO Investors; and (iv) All the Pre-IPO Investors (and their directors and shareholders) were independent of and not connected with Company A. *Decision* 4. The Exchange ordinarily interprets MB Rule 10.07(1)(a), which restricts controlling shareholders to dispose shares during the first six months of the listing, to apply to a deemed disposal situation. On the other hand, the Exchange ordinarily considers that issue of new shares pursuant to an agreement entered before the listing is allowed under Listing Rule 10.08 provided that the material terms of the agreement have been disclosed in the listing document. 5. The Exchange determined that it did not consider the conversion to be barred by MB Rules 10.07 or 10.08 after having considered the following: (i) The material terms of the Convertible Notes including the reasons for the issue and the use of the proceeds were prominently disclosed in the listing document in accordance with the Exchange's expectations under MB Rule 10.08; (ii) The Convertible Notes were issued more than six months before the date of the hearing of Company A's listing application; and (iii) The Pre-IPO Investors were independent third parties and there was no evidence to suggest that the Pre-IPO Investors had any connection with the

WYBOTICS EX1041
Wybotics v. Zodiac
Page 417

Applicant	Background and Decision
	controlling shareholders such that they would constitute a group of controlling shareholders for the purpose of MB Rule 10.07.
Company B *(MB applicant) (2009)* Rule reference: MB Rules 2.13, 8.04, 8.05(1)(c), 11.07	*Background* 1. Company B's shares were listed on a foreign exchange and it sought a dual primary listing by way of introduction on the Main Board. Company B applied for a waiver of MB Rule 10.08 which restricts an issuer from issuing further shares within six months after listing. 2. In support of the waiver application, Company B submitted that: (i) As Company B was not issuing new shares or raising new funds, its listing on the Exchange would not result in dilution of shareholders' interests; (ii) The existing shareholders would be prejudiced if Company B was restricted from fund raising activities. The restriction would affect its business development; (iii) The interests of the shareholders would be safeguarded by the shareholders' approval mechanism under MB Rule 13.36. For example, its shareholders had approved a general mandate pursuant to MB Rule 13.36 for the issue of new shares; (iv) MB Rule 10.08(5) provided that the restriction in MB Rule 10.08 did not apply to issue of securities on the Main Board by a listed issuer successfully transferred from GEM to the Main Board. The relaxation provided under MB Rule 10.08(5) should also be extended to companies already listed on an overseas stock exchange which were seeking to list on the Exchange by way of introduction; and (v) The applicant agreed to the following conditions: (a) Any issue of shares (or convertible securities) by Company B during the first six months of listing must be either for cash to fund a specific acquisition or as part or full consideration for acquisitions; (b) Any acquisitions mentioned in (a) above must be for asset or business that would contribute to the growth of Company B's operation; and (c) Company B would not apply for a waiver of MB Rule 10.07. Company B's controlling shareholder would not cease to be the controlling shareholder upon the issue of any shares within the first 12 months of listing. *Decision* 3. The Exchange was satisfied that Company B was able to address the underlying concern of the restriction under MB Rule 10.08 and granted Company B the requested waiver subject to the conditions in paragraph 2(v) above based on the considerations that:

WYBOTICS EX1041
Wybotics v. Zodiac
Page 418

Applicant	Background and Decision
	(i) Company B's controlling shareholder had demonstrated its commitment to Company B by not disposing of any of Company B's shares since its first listing on a foreign exchange in 2006; and it would remain a controlling shareholder of Company B for the first 12 months of its listing on the Exchange as required by MB Rule 10.07; (ii) Any issue of shares after Company B's listing on the Exchange would be governed by the pre-emptive rights provisions in MB Rule 13.36. The approval of general mandate by Company B's existing shareholders would be disclosed in the listing document; and (iii) As Company B was not raising new funds for its listing on the Exchange, strict compliance with MB Rule 10.08 would limit its right to access the capital markets which it could otherwise do as a foreign listed issuer on its primary exchange. This might prejudice its business development and therefore might not be in the best interests of its public shareholders.
Company C *(MB applicant) (2009)* Rule reference: MB Rules 10.07(1)(b), 10.08	*Background* 1. Company C was listed on a foreign exchange and it sought a dual primary listing by way of introduction on the Main Board. It proposed to enter into an agreement with certain potential investors before listing for the issue of convertible bonds convertible at the option of the investors six months after its listing (i.e. during the Second Lock-Up Period). Upon conversion, Shareholder X's shareholding in Company C might be diluted to below 30% according to the conversion formula based on the latest market price of the shares. Company C applied for a waiver from MB Rule 10.07(1)(b). 2. When considering the waiver application, the Exchange took into consideration that: (i) Company C was already listed on a foreign exchange. The Exchange noted that the restriction under MB Rule 10.07(1)(b) might hinder potential business opportunities and development of Company C, such as the proposed issue of convertible bonds; (ii) Company C was seeking a listing on the Exchange by way of introduction which would not involve any issue of new shares and would not result in any dilution of the shareholders' interest in Company C; (iii) Shareholder X had demonstrated its commitment to Company C by not disposing of any shares since its establishment. It would undertake not to dispose of any shares in the first 12 months following Company C's listing, except for the deemed disposal resulting from the conversion of convertible bonds; (iv) The proposed issue of the convertible bonds would be structured so that Shareholder X's interest in Company C would not be diluted below 28% in the first 12 months after its listing. Under this structure, Shareholder X would continue to be the single largest shareholder, though not the controlling shareholder, of Company C; and

WYBOTICS EX1041
Wybotics v. Zodiac
Page 419

Applicant	Background and Decision
	(v) Company C would set out the details of the proposed issue of the convertible bonds, including the use of the proceeds, in the listing document; and there would be regular updates of the progress in its future regular reports. *Decision* 3. The Exchange considered that MB Rule 10.07(1)(b) applied to a deemed disposal resulting in a dilution of the controlling shareholder's interest from the issue of new shares by the issuer. 4. The Exchange waived MB Rule 10.07(1)(b) to enable dilution of shareholder X's interest in Company C during the Second Lock-Up Period, subject to: (i) Shareholder X's undertaking not to dispose of any of its interests in Company C in the first 12 months after its listing, except for the dilution resulting from the issue of conversion shares; and (ii) Company C making sufficient disclosure of the convertible bonds in the listing document and future regular reports after listing.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 420

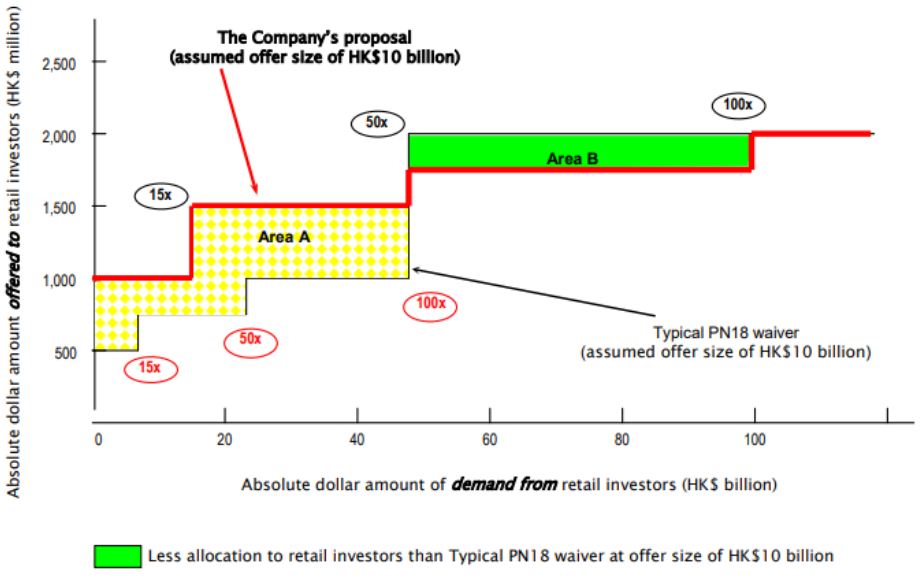
Annex A.18 Offering-related Mechanisms

Applicant	Background and Decision
Company A *(2001)*	*Background* 1. 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. *Decision* 2. The over-allotment option proposed by Company A was not acceptable to the Exchange. 3. 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)*	*Background* 1. Company B's proposed IPO offering would have a total value of less than HK$100 million. 2. 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%. 3. 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. 4. 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. *Decision* 5. 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
	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. 6. Company B's offer size adjustment option was permitted subject to the following conditions: (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: (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.
Company C *(MB applicant) (2008)* Rule reference: Paragraphs 4.1, 4.2[1] of MB Practice Note 18	*Background* 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: (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

[1] Pursuant to the then clawback mechanism under paragraph 4.2 of MB Practice Note 18, the minimum initial allocation was 10% and the minimum percentage of share allocation to the public subscription tranche were 30%, 40% and 50% for oversubscription of 15 times to less than 50 times, 50 times to less than 100 times and 100 times or more, respectively. For applicants with listing documents published on or after 4 August 2025 that adopt Mechanism A, this requirement has been revised such that the prescribed initial allocation is 5% and the prescribed percentage of share allocation to the public subscription tranche are 15%, 25% and 35% under the three trigger points, respectively. See paragraph 2 of **Chapter 4.14**.

Applicant	Background and Decision
	times; and (d) a percentage range from not lower than 20% to not higher than 40% (the actual percentage of allocation to the public subscription tranche would be subject to the size of the actual offer, but in any event it would be no less than HK$2 billion in dollar amount) if the public subscription tranche was oversubscribed by 40 or more times (see case A in paragraph 6 of **Chapter 4.14** for illustration). 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. *Decision* 3. The Exchange noted that: (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; (ii) A flexible policy in warranted cases would allow tailoring the offering more effectively to accommodate demands from different pools of investors; (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 (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. 4. The Exchange granted the PN18 Waiver as it was concluded that: (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; (ii) The proposed offering structure had earlier oversubscription clawback trigger multiples than a Typical PN18 Waiver structure; (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 (iv) The trigger points were easy to understand and implement.

Applicant	Background and Decision
Company D *(MB applicant) (2008)* Rule reference: Paragraphs 4.1, 4.2[1] of MB Practice Note 18	*Background* 1. 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: (i) 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 (ii) 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. *Decision* 2. The Exchange considered the following: (i) Need to preserve discretion to deal with applications on a case by case basis when granting a Typical PN18 Waiver; (ii) Prevailing market conditions at the time Company D submitted its application; (iii) Allocation of shares between institutional and retail investors being essentially a commercial decision subject to the relevant Listing Rules; and (iv) Previous PN18 Waivers granted. 3. As illustrated in the graph below, the Exchange noted that:  *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%).*

Applicant	Background and Decision
	(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. 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.

Annex A.19 Placing-related Matters

Applicant	Background and Decision
Company A *(MB applicant) (2003)* Rule reference: MB Rule 9.11(35)(b); paragraph 11 of MB Appendix F1	*Background* 1. Shares in Company A's IPO would be placed under the placing tranche to certain investment funds. Its sponsor, Sponsor X, sought guidance from the Exchange on the extent of the information to be provided to the Exchange in relation to the funds. *Decision* 2. Where shares were placed to investment funds, the Exchange must be provided with a list setting out information required under paragraph 11 of MB Appendix F1. The Exchange might also request such additional information as it considered necessary for the purpose of determining whether the fund was in fact independent. Depending on the circumstances, the Exchange might ask to be provided with the names and Hong Kong identity card numbers of the beneficial owners of the fund.
Company B *(MB applicant) (2005 and 2012)* Rule reference: MB Rule 9.11(35)(b); paragraph 11 of MB Appendix F1	*Background* 1. The international offering of Company B included a public offering without listing in Japan ("**POWL**"). The sponsor applied with respect to the IPO shares sold under POWL for a waiver from strict compliance with MB Rule 9.11(35)(b) and paragraph 11 of MB Appendix F1 requiring submission to the Exchange a list from each of the placing brokers setting out details of and the amounts taken up by each placee. 2. The sponsor submitted its waiver application on the following grounds: (i) Japanese regulations in general prohibited agents from disclosing clients' details (including but not limited to the name, address, age of clients and details of assets) to third parties; (ii) Information given by placees under standard market practice in Japan was insufficient for completing the information required under MB Rule 9.11(35)(b); (iii) The POWL was expected to involve over 10,000 investors. Further, all information relating to placees would need to be translated into English. It would be unduly burdensome and nearly impossible to submit the required information relating to POWL placees to the Exchange before commencement of dealings; and (iv) The Japanese agents would confirm in writing the independence of each placee from any director of Company B or their respective associates or any existing shareholder or nominee of Company B. *Decision* 3. The rationale behind the rules governing placing of shares was to ensure that shares were placed to independent and genuine investors, rather than connected persons of the applicants or related parties of the underwriters/brokers. 4. Previously, the Exchange had not required the submission of placee lists in respect of public offer of shares sold under POWL in Japan and the US, if it was reasonably

WYBOTICS EX1041
Wybotics v. Zodiac
Page 426

Applicant	Background and Decision
	satisfied that the investors were independent to the extent required under applicable foreign regulations. 5. As such, the Exchange decided that the present application for waiver should be considered favourably if the following conditions were satisfied: (i) The shares would be sold in a public offer governed by rules and regulations of the relevant jurisdiction to ensure independence of the investors; (ii) The applicant and the sponsor made a demonstrable effort to comply with the placee list requirements in good faith and full compliance would not be practicable; and (iii) The sponsor, underwriters or placing brokers would confirm in writing that the investors obtaining the shares sold in the public offer are independent of the sponsor/underwriters/brokers, the applicant's connected persons or their associates or any existing shareholders of the applicant, including nominee of the foregoing. 6. In a subsequent case where the applicant applied for the same waiver, it then came to the Exchange's attention that the relevant Japanese regulations prohibiting members of the Japanese Securities Dealers' Association from disclosing customers' information to any third party only applied to individual customers but not institutional customers. Therefore, in addition to the conditions as set out in paragraphs 5(i) to (iii) above, the waiver was granted to this applicant provided that each placing broker would submit to the Exchange a list setting out details of all institutional placees and the number of shares taken up by each of them as required under MB Rule 9.11(35)(b) and paragraph 11 of MB Appendix F1. 7. Based on the above analysis and the facts of the two cases, the Exchange considered that the conditions set out above were satisfied and on this basis granted the requested waiver.

Annex A.20 Sponsor's Independence, Expert Engagement and CMI Appointment

Applicant	Background and Decision
Company A *(MB applicant) (2006)* Rule reference: MB Rule 3A.07	*Background* 1. A subsidiary of the parent company of Sponsor X (the "**Associate**") subscribed for pre-IPO convertible notes of Company A. 2. The Associate intended to convert the convertible notes into shares shortly before listing, which represented not more than 2% of the enlarged issued share capital of Company A. 3. The conversion price was at a discount of 20% to 35% to the IPO price which was subject to downward adjustment based on a guaranteed profit clause. 4. The Associate would not be entitled to appoint any board members of Company A and no other arrangement was entered into or proposed to be entered into between Company A and the Associate concerning the management of the Group. 5. Save as acting as sponsor and global coordinator, no other relationship existed between Company A (on the one hand) and Sponsor X and its fellow subsidiaries (on the other hand). 6. The operation of the Associate was independent of Sponsor X. They shared only one common non-executive director. None of the members of the management team of the Associate was involved in the daily operation of Sponsor X or vice versa. *Decision* 7. The guaranteed profit clause was a financial commitment provided by Company A to the Associate and could be construed as a material interest of Sponsor X in the listing of Company A, which could adversely affect the independence of Sponsor X. In view of the Exchange's concern, Sponsor X removed the guaranteed profit clause and the Exchange had no further comments on the independence of Sponsor X.
Company B *(GEM applicant) (2015)* Rule reference: GEM Rule 2.09; GEM Chapter 11	*Background* 1. Company B was a GEM applicant engaged in a regulated business. 2. Mr. J, a non-voting member of the executive committee and a senior management of the group companies of Sponsor Y (the "**Sponsor Group**"), subscribed for pre-IPO convertible bond issued by the Company B. 3. Such pre-IPO convertible bond would be fully converted into the Company B's shares before listing and Mr. J would be interested in more than 5% of the Company B upon listing. 4. To address the Exchange's concern on Sponsor Y's independence under GEM Rule 6A.07(9), Sponsor Y proposed to arrange for the Company B to redeem the pre-IPO convertible bond held by Mr. J before listing. *Decision*

Applicant	Background and Decision
	5. The Exchange considered Sponsor Y was not independent under GEM Rule 6A.07(9) due to Mr. J's positions in the Sponsor Group, under which Mr. J was delegated various management powers. In particular, the Exchange considered that the executive committee of the Sponsor Group was fulfilling a similar role of its board of directors. The above raised concern that Mr. J might be able to exert actual influence on Sponsor Y. In addition, even if the internal conflicts of interest measures within the Sponsor Group were assumed to be effective, Mr. J's positions in the Sponsor Group nevertheless would reasonably give rise to a perception that Sponsor Y was not independent. 6. The proposal of redeeming the pre-IPO convertible bond before listing did not address the issue, given that Sponsor Y must be independent of Company B from the date of submission of its listing application up to the date of listing under GEM Rule 6A.07. As a result, the listing application was rejected.
Company C *(MB applicant) (2019)* Rule reference: MB Rule 2.06; MB Chapter 8	*Background* 1. Company C, a GEM company, supplied electronic components. It applied to transfer to the Main Board. 2. Sponsor Z acted as the sole sponsor in respect of Company C's GEM listing and thereafter also acted as Company C's compliance adviser. Sponsor Z then acted as sole sponsor to Company C's transfer application from GEM to the Main Board of the Exchange. *Decision* 3. Sponsor Z was not independent because its roles as a compliance adviser would reasonably give rise to a perception that it could not objectively assess Company C's compliance records when Sponsor Z would be effectively reviewing its own work. Company C should appoint another sponsor for the purpose of Rule 3A.07. As a result, the transfer application was rejected.

Annex A.21 Return of Listing Applications

Applicant	Background and Decision
Company A *(GEM applicant) (2013)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company A was a distributor of certain products. 2. There were various disclosure deficiencies in the AP: *"Summary" section* (i) Company A did not follow guidance for disclosure under **Chapter 3.2** in the "Summary" section, and there was no disclosure on (a) the usage of its main products; (b) the classification of distributors; (c) how it determined the pricing of products with its suppliers and distributors; (d) price control under the relevant PRC laws and regulations; and (e) legal proceedings against it. *Competition with controlling shareholder* (ii) No disclosure to demonstrate (a) how the respective distribution businesses of Company A and its controlling shareholder could be delineated; and (b) that there were adequate and effective CG measures to manage conflicts of interest and competition between them. *Distributorship* (iii) Insufficient disclosure on the relationship between different types of customers and measures to address the potential conflict of interests. The degree of Company A's control over its distributors in complying with the national pricing policy, sales and avoidance of cannibalisation and the competition among different types of distributors were also unclear. (iv) No disclosure in addressing the issue of independence of distributors in accordance with **Chapter 4.5** and no explanation on what value-added services were provided by Company A to its customers to sustain its gross profit margin level, which was particularly high as compared to those of its peers. *Industry and regulatory overview* (v) No disclosure on the regulations on price control, and no detailed analysis on the extent to which Company A was affected by the price control during the track record period, the measures taken to mitigate the adverse impact of price reductions, and update on relevant laws and regulations applicable to Company A and their impact. *Future plans and business objectives* (vi) Insufficient disclosure on Company A's plan to expand its distribution network by obtaining new exclusive distribution rights for new products, and why Company A needed to develop products through alliance or partnership, given that it was only engaged in distribution, but not R&D activities.

Applicant	Background and Decision
	Decision 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company B *(MB applicant) (2013)* Rule reference: MB Rules 8.10(1)(a), 8.10(2), 9.03(3)	*Background* 1. Company B was a garment manufacturer. 2. There were various disclosure deficiencies in the AP: *Major customers* (i) Insufficient disclosure on major customers, including (a) their identities and background; (b) salient terms of sales agreements; (c) pricing strategies; and (d) plans and measures to reduce reliance on its major customers. *Suppliers and raw materials* (ii) Insufficient disclosure on suppliers and raw materials, including (a) number of suppliers; (b) importance of its major suppliers and whether there were plans and measures to reduce reliance on them; (c) reasons for raw materials price fluctuations; (d) policies to manage exposure to rising costs; and (e) whether increases in costs could be passed to customers. *Forward contracts* (iii) Insufficient disclosure on forward contracts, including (a) reasons for entering into forward contracts; (b) key terms of these contracts; (c) maximum potential exposure; (d) details of investment; (e) hedging and risk management policies and internal control procedures; and (f) personnel and senior management involved. *Disposal of subsidiaries to controlling shareholder* (iv) Insufficient disclosure on the disposal of certain subsidiaries to its controlling shareholders, including (a) reasons for the disposal; (b) whether the disposed entities were connected with Company B; and (c) all the information required under MB Rules 8.10(1)(a) and 8.10(2). *Non-compliances* (v) Insufficient disclosure on the details of non-compliances, including the (a) root causes of the non-compliances; (b) rectification measures and internal controls adopted; and (c) sponsor's view on the non-compliances and whether they might impact on Company B and its directors. *"Summary" section* (vi) Insufficient disclosure to provide investors with a concise overview of Company B's operating model and highlights of significant matters, and did not follow guidance for disclosure under **Chapter 3.2** in the "Summary" section.

Applicant	Background and Decision
	"Financial Information" section (vii) No meaningful discussion on Company B's financial position but only a pure description of the quantitative changes in the underlying components, and how various factors (e.g. change in product mix, product pricing model and the fluctuation of prices of major production materials) affected Company B's business during the track record period. *Others* (viii) No/insufficient disclosure on (a) the control measures on product design, IP rights protection and the relevant risk exposure; (b) reasons for the fluctuation of the utilisation rate of production facilities during the track record period and details of the new production equipment to be purchased with the net IPO proceeds; and (c) Company B's transfer pricing arrangement and the regulatory, product quality and safety requirements to which it might be subject in its major operating markets. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company C *(MB applicant) (2013)* Rule reference: MB Rule 9.03(3)	*Background* 1. Company C was engaged in the entertainment business. 2. There were various disclosure deficiencies in the AP: *Business model* (i) Insufficient disclosure on the (a) exact services provided and the extent of involvement in the entertainment operation; and (b) salient terms of major agreements, including rights and obligations of different parties, allocation of profit and expenses, duration of the agreements and termination clauses. *Risk management and internal control measures* (ii) Insufficient disclosure to demonstrate that Company C had sufficient and effective risk management and internal control measures in place to manage its credit risk and that its operation remained clear of corruption and money laundering activities. (iii) No disclosure on (a) details of the exposure to credit risks of advances/guarantees, the credit risk control measures and the relevant default rates; (b) control mechanism to actively manage the entertainment activities; and (c) details of anti-money laundering and anti-corruption policies and related procedures, and the professional qualification and industry experience of the relevant personnel who were in charge of internal control. *Future plans and liquidity position*

Applicant	Background and Decision
	(iv) Insufficient disclosure on (a) whether the significant amount due from directors would be settled and the resulting impact on financial position; (b) details on Company C's liquidity management; (c) expected timing of payment for each of its future plans and the related source of financing; (d) details on how to manage its business expansion (e.g. sourcing of suitable expertise and the management of staff) and the contingency plan if it failed to complete the projects; and (e) compliance records with all the bank covenants, given the significant costs of Company C's future plans and tight liquidity position. *Disputes and legal proceedings* (v) Insufficient disclosure on the disputes and legal proceedings involving Company C, including (a) the circumstances leading to each dispute and legal proceeding and the maximum potential impact on Company C's operation and financial position; and (b) details of internal control measures to prevent recurrence of these events in the future. *"Summary" section* (vi) No disclosure on (a) Company C's major acquisition; (b) its reliance on the largest customer; (c) its key operating data; (d) commentary on material fluctuations of revenue and profit; (e) material disputes and legal proceedings; (f) major risks; and (g) recent developments. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company D *(MB applicant) (2013)* Rule reference: MB Rule 9.03(3)	*Background* 1. Company D was a service provider. 2. There were various deficiencies in the AP: *Business model* (i) Insufficient disclosure on (a) whether the three business segments of Company D were inter-related or cross-selling; (b) why clients had to engage Company D instead of directly dealing with its operators; (c) pricing policy for products and services; (d) how revenue and costs were recognised; (e) sales and marketing strategies; (f) liability clauses for misleading/inaccurate contents; (g) involvement and role in organising competitions/events; (h) salient terms of major agreements; and (i) how Company D obtained free and discounted advertising time slots and their breakdown. *Future plans* (ii) Insufficient disclosure on Company D's plan for utilising the IPO proceeds to fund its business plan.

Applicant	Background and Decision
	Relationship with and reliance on the largest supplier (iii) Insufficient disclosure on the relationship with and reliance on Company D's single largest supplier (accounting for a majority of the total purchases during the track record period), including (a) whether it was an industry norm to rely on a single supplier; (b) measures taken/to be taken to reduce reliance; (c) renewal status and salient terms of the agreement with the supplier; and (d) details of the public auction process to acquire the exclusive right of the advertising time slots. *Contractual arrangements* (iv) The disclosure did not fully address the requirements under **Chapter 4.1**, including (a) the requirement for contractual arrangements to be narrowly tailored to achieve Company D's business purposes and to minimise the potential conflict with relevant PRC laws and regulations; (b) the relevant regulatory assurance obtained for using the contractual arrangements; (c) the details of any insurance purchased to cover the risks relating to the contractual arrangements; (d) the reporting accountants' view that Company D had the right to consolidate the relevant financial results under the prevailing accounting principles; (e) that Company D would unwind the contractual arrangements as soon as the relevant PRC law allowed it to do so; (f) the relevant economic risks; and (g) the circumstances that could require it to provide further financial support or expose it to losses. *"Summary" section* (v) Insufficient disclosure on Company D's business model, including (a) products/services it produced/provided in each business segment; (b) revenue breakdown by segment and commentary on any material fluctuations; (c) reliance on a major supplier; (d) update on the recent development of its operation and financial performance; and (e) key risk factors and a meaningful discussion on the fluctuation of Company D's financial performance and positions during the track record period. *Others* (vi) Company D failed to file a submission on the circumstances leading to the termination of Firm A as one of its experts and the subsequent engagement of Firm B, including (a) details of any disagreement with Firm A; (b) Firm A's clearance letter (if any); (c) Firm B's confirmation, with basis, on how any disagreement/unresolved matters with Firm A (if any) were resolved; and (d) whether there was any matter regarding the change of the expert which had to be brought to the Exchange's attention. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company E	*Background*

Applicant	Background and Decision
(MB applicant) (2013) Rule reference: MB Rules 3.08, 3.09, 9.03(3)	1. Company E was a wholesaler and retailer of consumer goods. 2. There were various disclosure deficiencies in the AP: *Suitability of director* (i) Company E's controlling shareholder, chairman and executive director, Mr. A, was implicated in an incident which gave rise to the Exchange's concern on his suitability, but the sponsor had not demonstrated to the Exchange's satisfaction that the incident did not affect Mr. A's suitability as a director under MB Rules 3.08 and 3.09. *Change in business focus and future plans* (ii) The AP failed to highlight that the revenue contribution from its property investment segment (which accounted for a majority of its net profit (including the fair value gain)) decreased significantly, and disclose the reasons for the change in business strategy, and how this change had affected its business risk profile (e.g. cost structure, profitability, liquidity and credit risks). (iii) Insufficient disclosure on (a) how Company E would expand its wholesale and retail business (e.g. timing and scale of expansion, investment budget and expected time to recoup invested capital); (b) its future plans in the property investment segment; and (c) how it would manage its business expansion (e.g. procurement of customers, suppliers and skilled labour, quality control and internal control). *Property investment segment* (iv) The profit generated by the property investment segment was volatile due to the fair value change, but there was insufficient disclosure on the (a) fair value gains during the track record period (e.g. methodology adopted to appraise fair value of assets); (b) adjusted profits excluding fair value gains; (c) details of acquisition of the property (e.g. consideration, source of funding, conditions attached to the acquisition, property usage before/after the acquisition and any major construction activity conducted for the current use); (d) salient terms of the lease of property from the government; and (e) business arrangements with Company E's customers subsequent to reorganisation of the listing group, how the relevant customer agreements correctly reflected the nature of Company E's operations, and their impacts on Company E's business and financial position with meaningful analysis (e.g. average rental per square metre and commentary on material fluctuations, years of relationship with occupiers and their respective gross floor areas rented and rental contribution based on the existing leases). *Wholesale and retail businesses* (v) Company E considered its membership with an industry association (Association A) in Mainland China as one of its competitive strengths. However, there was no disclosure in relation to Association A on the background, categories of membership and their basic requirements, obligations and annual

Applicant	Background and Decision
	fees, the total number of members, and whether Company E's membership was subject to annual review and conditions. (vi) No analysis on the gross profit margin of different types of consumer goods, the proportion of the different types of raw materials used by manufacturing contractors and a detailed cost breakdown by business segment. (vii) No disclosure on (a) background information of Company E's five largest customers; (b) the salient terms of cooperation with them; (c) reasons for the high customer concentration in the wholesale segment; (d) its plan to mitigate the risk of reliance; and (e) its preferential pricing arrangement with one of its largest customers and the pricing details. (viii) No disclosure on the largest and five largest suppliers; the salient terms of the subcontracting arrangement and framework agreements and the compensation for contract parties failing to supply or purchase the minimum purchase amount. (ix) Insufficient details on Company E's internal controls. (x) No disclosure on the grades of the inventory, Company E's intention for its inventory and how long it could support its current operations and/or future business expansion, the historical price trends for its raw materials, and whether Company E would need to make any provision for the inventory. *Others* (xi) Company E did not follow guidance for disclosure under **Chapter 3.2** in the "Summary" section and **Chapter 3.12** in the "Use of Proceeds" section, and guidance under **Chapter 3.7** on IP rights, **Chapter 4.5** on distributors and **Chapter 3.11** on indebtedness and liquidity. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company F *(GEM applicant) (2013)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company F was a service provider. 2. There were various disclosure deficiencies in the AP: (i) No disclosure on whether Company F would be able to secure new projects and sustain its business given that it had only completed a few contracts during the track record period, and all projects on hand as at the LPD were expected to be completed soon. (ii) Insufficient disclosure on whether Company F would be able to raise sufficient independent funding to finance its significant short-term funding needs, given that it was loss making in previous years with net operating cash outflow and net current liabilities, and relied on its controlling shareholder to finance its operations throughout the track record period.

Applicant	Background and Decision
	(iii) Insufficient disclosure on Company F's largest project on hand (which was a project outside Hong Kong), its plan to finance and manage such project, the likelihood of success and expected timing of completion of registration with the relevant authority, given that Company F and its directors and senior management lacked experience in conducting business outside Hong Kong and Company F had not completed certain registrations in the other country. (iv) Insufficient information on the industry's competitive landscape and industry-specific risk factors. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company G *(MB applicant) (2014)* Rule reference: MB Rules 8.05(1)(a), 9.03(3)	*Background* 1. Company G provided construction services. 2. There were various disclosure deficiencies in the AP: *Packaging of business* (i) Company G focused on segment A, and would cease its business in segment B upon completion of the last project despite the significant contribution to total revenue during the track record period. There was insufficient disclosure on segment B, including why segment B was included in the listing group given the focus on segment A, and the impact on Company G's track record revenue and profit margin had segment B been excluded in the first place. (ii) The sponsor did not demonstrate that Company G was able to meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding the profit from segment B, and that there was no packaging issue after including segment B in the listing group. *Connected and related party transactions* (iii) Company G subcontracted the construction work to a connected party which resulted in a thin profit margin during the track record period. There was no disclosure on how the pricing of sub-contracted work was determined and whether such continuing connected transaction was conducted on normal commercial terms, and the basis of the recurring management fee income from a connected person. *Workplace safety* (iv) Insufficient disclosure on Company G's workplace safety and related regulatory compliance during the track record period, including (a) the number of accidents and workers involved during the track record period and up to the LPD, the level of severity of the accidents, the amount of compensation paid, maximum liabilities for the existing and potential claims, and whether its accident rate was comparable to its industry peers; (b) the underlying factors

Applicant	Background and Decision
	leading to the respective accidents and the measures taken by Company G and its subcontractors to improve the safety standards and to prevent reoccurrence of similar accidents going forward; and (c) how Company G monitored the performance and workplace safety of its contractors. *Others* (v) Company G did not follow guidance for disclosure under **Chapters 3.2**, **3.3** and **3.12** in the 'Summary" section, including the recent developments of Company G's operational and financial performance, the "Risk Factors" section and the "Use of Proceeds" section. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company H *(MB applicant) (2014)* Rule reference: MB Rules 3.08, 3.09, 8.05(1)(a), 9.03(3)	*Background* 1. Company H was a financial service provider. 2. There were various disclosure deficiencies in the AP: *Non-compliances* (i) Company H had a significant number of non-compliance incidents relating to its core business and operations. There was insufficient disclosure on such non-compliances, including (a) how and by whom the non-compliances were detected; (b) the period in which the non-compliances occurred; (c) the directors' involvement in the non-compliances; (d) the operational and financial impacts; (e) Company H's compliance record and results of regulatory inspections during the track record period and up to the LPD; (f) the rectification and precautionary measures implemented; (g) the sponsor's and internal control adviser's views on the adequacy and effectiveness of these internal control measures; (h) whether Company H was able to meet the minimum profit requirement under MB Rule 8.05(1)(a) after excluding the revenue and profit arising from the non-compliances; and (i) the sponsor's view on the directors' suitability under MB Rules 3.08 and 3.09. *Business operations* (ii) Insufficient disclosure on the key aspects of business operations, including (a) procedures for opening new accounts, including customers' credit assessment and collateral valuation, procedures and timing of trade execution and settlement, and the matching mechanism used for trading; (b) details of business arrangements with customers, business partners and hedging partners; (c) the number and amount of error trades, the loss incurred and the internal control measures adopted to prevent recurrence; and (d) detailed arrangements for the referral of customers and the associated risks, in particular, the revenue model, roles and responsibilities of parties involved, and the internal control measures to monitor and identify high risk customers, abnormal trades and potential laundering activities.

Applicant	Background and Decision
	Hedging (iii) Insufficient disclosure on hedging strategy and risk control measures, including (a) factors considered in making hedging decisions, the effectiveness of the hedging activities during the track record period, the percentage of exposure to be hedged and whether the transactions entered into were for hedging or for speculative purpose; (b) the internal control measures to manage hedging risks, experience of the relevant personnel, and details of the review and reporting system; and (c) detailed analysis of the underlying causes for the fluctuation in income despite the adoption of the hedging activities. *Money laundering* (iv) No disclosure on allegations concerning the source of funds used by one of its customers, including (a) the details and source of the allegations, the investigations conducted by Company H and the related findings, and whether it had reported these incidents to the relevant regulatory authorities; (b) how Company H settled the trading account, revenue and profit generated from the customer and clients referred to it, and the operational and financial impact to it as a result of the termination of relationship with the customer; (c) details of internal control measures and whether it had enhanced its internal control measures as a result of this incident, in particular, on know-your-clients procedures; and (d) the sponsor's view on the adequacy and effectiveness of the enhanced internal control measures and its compliance with all relevant regulatory requirements. *Liquidity and working capital management* (v) Company H recorded operating cash outflow and a significant increase in trade receivables from hedging counterparties, but failed to disclose (a) detailed analysis of the reasons leading to an increase in receivables; (b) the fluctuation in account receivables and accounts payables turnover days, subsequent settlements, and its financing capability to fund its working capital shortfalls; and (c) its credit policy and account receivables provision policy. *Future plans and use of proceeds* (vi) Company H proposed to finance its business expansion to new geographical markets with the IPO proceeds, but the AP lacked disclosure on (a) the expected timeframe of its expansion plan; (b) the source of funding in addition to IPO proceeds; (c) how the expansion plan might affect its business and risk exposure; and (d) the basis of selecting new geographical markets, and the relevant regulatory requirements and compliance procedures. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company I	*Background*

Applicant	Background and Decision
(MB applicant) (2014) Rule reference: MB Rule 9.03(3)	1. Company I was an equipment manufacturer. 2. During the track record period, Company I sold products to a sanctioned country, but there was no disclosure on whether Company I or any parties involved in the listing would be subject to sanctions risk. The directors, sponsor and legal advisers had also not provided any views, with basis, on sanctions risk, and how it might affect Company I's suitability for listing. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company J *(MB applicant) (2014)* Rule reference: MB Rules 3.08, 3.09, 9.03(3)	*Background* 1. Company J was a pharmaceutical company. 2. There were various disclosure deficiencies in the AP: *Business model – distributorship* (i) Company J distributed most of its products through distributors, but there was insufficient disclosure on the group's distributorship business model as required under **Chapter 4.5**. *Transactions with sanctioned countries* (ii) Company J planned to export its products to and commence sales activities in sanctioned countries, but there was insufficient disclosure on the details of these transactions and whether these export activities/sales would be subject to any sanctions. *Relocation and subcontracting* (iii) Company J engaged a third party subcontractor to produce certain pharmaceutical products due to the relocation of its production facilities. There was no disclosure on the material details of the subcontracting arrangement and the relocation plan, including (a) the amount of revenue from the sales of products produced by subcontractors; (b) the quality control of subcontracted products and the protection of confidential information; (c) salient terms of subcontracting agreements and the availability of alternative subcontractors; (d) reasons for the relocation and the expected timeframe; (e) the capital expenditures incurred and to be incurred; (f) the sources of funding; and (g) the expected increase in production capacity. *"Summary" section* (iv) Insufficient information to provide a concise overview of Company J's business operations and to highlight significant matters as required under **Chapter 3.2**. (v) No disclosure on (a) key aspects of the group's business by segments, including the respective product features, major customers, major suppliers, sales and

Applicant	Background and Decision
	distribution channels, and market share of each segment; (b) a breakdown of operating income and gross margin by business segment, followed by a high-level discussion on the material changes during the track record period and up to the LPD; (c) business relationships with the controlling shareholder (i.e. a major supplier), and commentary on the fluctuation in the level of purchases during the track record period; (d) impact of government price controls on its pharmaceutical products; (e) a brief summary of its material business risks; (f) recent developments post track record period; and (g) the relevant industry and regulatory environments. *Product quality* (vi) Insufficient disclosure on certain product quality issues revealed from the Exchange's desktop research, including whether it received any complaints/requests for return, whether it had any product liability, the rectification measures taken/to be taken, and whether the issues reflected poor quality control or negatively on its directors' suitability. *Bribery* (vii) No disclosure on the details of a bribery incident revealed from the Exchange's desktop research, including the financial and operational impact of the incident on Company J, the internal control and anti-bribery measures to prevent the reoccurrence of similar events, and the sponsor's view on the directors' suitability under MB Rules 3.08 and 3.09. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company K *(GEM applicant) (2014)* Rule reference: GEM Rules 5.01, 5.02, 11.06, 11.12A(1), 12.09, 12.14	*Background* 1. Company K was engaged in the sales of fuel oil and provision of logistics services. 2. There were various disclosure deficiencies in the AP: *Non-compliances* (i) Company K had a significant number of non-compliances related to its core business and operations. The disclosure on the non-compliance incidents was unclear and insufficient, and failed to include the causes and reasons for each non-compliance, the involvement of directors and senior management in the non-compliances, the operational and financial impacts on Company K, and the details of implementation and effectiveness of rectification and precautionary measures adopted. (ii) The sponsor also did not provide its view on whether the non-compliances had any impact on the directors' suitability under GEM Rules 5.01 and 5.02 and Company K's suitability for listing under GEM Rule 11.06.

Applicant	Background and Decision
	(iii) Company K had not demonstrated to the Exchange's satisfaction that it was able to meet the minimum cash flow requirement under GEM Rule 11.12A(1) after excluding the relevant cash flow from the non-compliant sales. *Serious deterioration in recent financial performance* (iv) No detailed discussion on the serious deterioration in Company K's financial performance, including how the changes in regulations and other economic factors would affect its future business and profitability, and the sponsor and the directors' views on whether its business was sustainable and suitable for listing under GEM Rule 11.06. *Strategic arrangements with customers* (v) Company K entered into sales agreements with a major customer and a related customer to sell them products at a discount. There was insufficient disclosure on these agreements, including the duration, ranges and basis of discount, payment terms, settlement method, major rights and obligations of the parties, and whether these agreements were entered into on normal commercial terms and in accordance with common industry practice. *Money laundering* (vi) During the track record period, some of Company K's overseas customers settled their invoices through a licenced money exchange house which then transferred the payments to Company K. Company K was unable to identify the source of funds and was exposed to potential money laundering activities. Some of Company K's sales were also conducted in cash. (vii) Insufficient disclosure on the arrangements among Company K, its customers and the exchange house, the reasons for the arrangements and the risks involved, whether there were incidents where Company K was suspected or found to be involved in any illegal activities in relation to funds received from overseas, the amount of sales transactions settled in cash during the track record period, and the specific internal control measures adopted by Company K to detect and prevent its bank accounts being used for illicit purpose and cash misappropriation by its employees. *Transactions with related parties* (viii) Company K sold and purchased products from a company owned by a shareholder during the track record period, and failed to disclose whether such transactions were entered into in the ordinary and usual course of its business and on normal commercial terms. The shareholder disposed of his interest in Company K subsequent to the track record period and there was no disclosure on whether the transactions with this company would continue after the disposal and the financial impact on Company K going forward. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.

Applicant	Background and Decision
Company L *(MB applicant) (2015)* Rule reference: MB Rule 9.03(3)	*Background* 1. Company L offered financial services in Mainland China. 2. The AP and the related documents submitted together with Company L's application form failed to disclose material guaranteed transactions entered into by the connected persons, borrowers and Company L, and the circumstances leading to these transactions. These details were only disclosed in the revised listing document after the Exchange's comments. *Decision* 3. Given that the above material information should have been included in the AP, the Exchange considered that the listing application was not substantially complete, and therefore returned the listing application after receiving the response to the Exchange's first comment letter and the revised listing document (which only disclosed the material connected transactions for the first time).
Company M *(GEM applicant) (2015)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company M was a property company in Mainland China. 2. There were various disclosure deficiencies in the AP: *Competition with and reliance on controlling shareholder* (i) Company M's controlling shareholder would have interests in other properties and property-related businesses which would not be included in Company M's group upon listing. There was insufficient disclosure on (a) the level of current and potential competition with the controlling shareholder; and (b) details of the properties operated by Company M and the controlling shareholder, how the non-competition undertaking given by the controlling shareholder would operate, and what measures would be adopted to manage the current and potential competition between Company M and the controlling shareholder on areas outside of the ambit of the non-competition undertaking. *Arrangement with the controlling shareholder after listing* (ii) Company M provided some services to its controlling shareholder free of charge during the track record period, but planned to charge for these services after listing. The annual service fee was expected to be much higher than the profit attributed to the owners of Company M during the track record period. There was insufficient disclosure on Company M's change in business model, the basis of the annual fee after listing and Company M's financial results if it had charged its controlling shareholder a fee in the normal and usual course of business for these services during the track record period. *Leased property with a defective title* (iii) Company M had a significant project with a property owner for sub-leasing the owner's properties, but some properties did not have property titles. There was no disclosure on why the property owner did not obtain proper titles for the

Applicant	Background and Decision
	relevant properties, whether the rent paid to the property owner would have been more than it was if the relevant properties had proper titles, and hence, whether Company M's financial performance would have been significantly affected. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company N *(MB applicant) (2015)* Rule reference: MB Rules 9.03(3), 18.24(2)	*Background* 1. Company N was a mineral company as defined under MB Chapter 18. 2. The effective date of Company N's competent person's report was more than six months before the date of publishing the listing document, which fell short of the requirement as set out in MB Rule 18.24(2) and **Chapter 2.6**, which required that an applicant must provide a competent person's report with an effective date (i.e. the date when the contents of the competent person's report were valid) less than six months before the date of publishing the listing document. The validity date of the contents of a competent person's report should be the date of the appraisal (i.e. the date when resources and reserves were estimated or valued) and not the date when the competent person's report was signed. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company O *(MB applicant) (2016)* Rule reference: MB Rule 9.03(3)	*Background* 1. Company O provided financial services. 2. Company O initially disclosed in the AP that neither it nor its related parties had guaranteed any loan granted to its independent customers during the track record period, but thereafter revised its draft prospectus to disclose that its connected persons had provided guarantees for loans to independent customers which accounted for 3.5% to 11.1% of the total amount of loans granted during the track record period upon receiving comments from the Exchange. 3. Company O did not enter into any guarantee agreements with its connected persons, while it did so with non-connected persons. However, Company O did not provide any information as to the applicable terms and conditions of the guarantees from the connected persons, including how they could be enforced in the absence of agreements. There was also no disclosure on whether the guaranteed loans would continue and whether they would constitute connected transactions upon listing. *Decision* 4. The Exchange considered that transactions involving connected persons should be subject to a higher level of scrutiny given that they were normally in a position to

Applicant	Background and Decision
	significantly influence the management or an applicant's decision. There were also associated concerns on the effectiveness of Company O's CG measures taking into account the absence of any guarantee agreements between Company O and its connected persons, which deviated from its dealings with non-connected persons. 5. In view of the above, the Exchange considered that listing application was not substantially complete and therefore returned the listing application.
Company P *(GEM applicant) (2016)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company P provided conferencing services. 2. Company P omitted the following material information in the AP relating to its director, who was also its chairman and controlling shareholder ("**Director A**"): (i) A compulsory winding up order granted by the court against a company in which Director A was an executive director and a minority shareholder; and (ii) Certain non-compliances of the Listing Rules by two Hong Kong listed companies during which Director A was a director of these companies. *Decision* 3. The Exchange considered the omission of the above information was material as it would enable the Exchange and potential investors to assess the integrity, character and competency of Director A. 4. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company Q *(GEM applicant) (2017)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company Q was an online marketing service provider in Hong Kong. 2. Company Q did not disclose the following information in the AP: (i) Scope of services and specific works performed by Company Q under each business segment; (ii) Basis of Company Q's claim that its big data system and marketing tool outperformed its peers; (iii) Material terms of the master agreements with its major suppliers; (iv) How Company Q procured advertising space at a lower bidding price; (v) Details of performance bonuses and reseller's discounts received by Company Q from its suppliers and those paid by Company Q to its customers; and (vi) Different target customers, pricing policy, profitability, level of reliance on supplier discounts, and risk management challenges of the two types of services offered.

Applicant	Background and Decision
	3. Where relevant information was given, the disclosure in the AP was scattered, rendering it challenging for investors to appreciate its importance. 4. Company Q failed to explain key aspects of its business and industry in plain English, and/or use flowcharts and diagrams with narrative descriptions and illustrative examples to explain the financial aspects of its material transactions. The overuse of jargons and acronyms also made it difficult for investors to understand Company Q's business model. *Decision* 5. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company R *(GEM applicant) (2017)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company R was a consumer products company in Mainland China. Approximately 80% of Company R's total revenue during the track record period was generated from sales to distributors. 2. Company R initially disclosed in the AP that (i) most of its distributors had entered into annual/long-term distributorship agreements with Company R; and (ii) Company R had implemented measures to actively monitor the inventory levels of its distributors. However, it was subsequently disclosed that only around 1% of Company R's distributors, which accounted for only approximately 3% of its total revenue during the track record period, had entered into such agreements and were subject to such measures. The description of the business was materially inaccurate in the AP taking into account the significant changes made in subsequent proofs. *Decision* 3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company S *(GEM applicant) (2018)* Rule reference: GEM Rules 12.09, 12.14	*Background* 1. Company S was engaged in (i) a trading business in which it bore the inventory and credit risks, and recorded revenue and cost of sales from the transactions as a principal; and (ii) an agency business in which it did not bear any inventory and credit risks, and recorded agency income as an agent. The agency business was more profitable than the trading business. 2. The AP aggregated the two segments into the trading business, and the agency business was not clearly distinguished from the trading business. There was limited disclosure on the agency business and explanation on the different business models and risks involved. It was considered that a reasonable investor could not appropriately assess Company S's two businesses and make a fully-informed investment decision. *Decision*

Applicant	Background and Decision
	3. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company T *(MB applicant) (2018)* Rule reference: MB Rule 9.03(3)	*Background* 1. Company T provided brokerage and risk solutions services ("**Brokerage Business**"). 2. Company T started to invest in equity and structured products for its own account ("**Proprietary Trading Business**"), which accounted for a majority of its revenue and profit in the last year of its track record period. The Proprietary Trading Business was expected to be more material to Company T going forward because it planned to expand this business segment. 3. The AP did not provide sufficient disclosure on the Proprietary Trading Business in relation to (i) Company T's investment strategy; (ii) funding of investments; (iii) risk management; and (iv) the cost and percentage level of interest in each investment and actual performance/return of the investments. *Decision* 4. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.
Company U *(MB applicant) (2023)* Rule reference: MB Rules 9.03(3), 9.11(10)(b), 18.24(2)	*Background* 1. Company U was a mineral company as defined under MB Chapter 18. 2. Company U submitted together with its listing application the following: (i) A share subscription agreement which was entered into between Company U and a pre-IPO investor in March 2023, which was in the course of arranging the relevant registration/record filing in relation to the outbound direct investment. To the best knowledge, information and belief of Company U's directors, such filing was estimated to be completed in May 2023 (the "**Pre-IPO Investment**"). (ii) The AP disclosed the relevant details of the Pre-IPO Investment, including the material terms entered into, background of the pre-IPO investor and the strategic benefits to be brought by it. (iii) The cash flow forecast memorandum (the "**Cash Flow Forecast**") included the expected proceeds to be received from the Pre-IPO Investment. (iv) Company U acknowledged that the first day of trading of its shares would have to be delayed until 120 clear days after the completion of the Pre-IPO Investment (the "**120-Day Delay**") pursuant to **Chapter 4.2**. (v) The effective date of the competent person's report was 31 December 2022, and the Cash Flow Forecast covered until 30 June 2024. *Decision*

Applicant	Background and Decision
	3. Taking into account the expected time that the Pre-IPO Investment would be completed and the 120-Day Delay, the earliest possible time that Company U could publish its listing document would only fall on a date later than 30 June 2023 (the "**Earliest Possible Listing Document Date**"). However, Company U failed to reflect the 120-Day Delay in its proposed listing timetable. Company U failed to comply with the requirements under (i) MB Rule 18.24(2) and **Chapter 2.6** as the effective date of its competent person's report was more than six months before the Earliest Possible Listing Document Date; and (ii) MB Rule 9.11(10)(b) because the Cash Flow Forecast failed to cover a period of at least 12 months from the Earliest Possible Listing Document Date. 4. In view of the above, the Exchange considered that the listing application was not substantially complete and therefore returned the listing application.

Annex A.22 Miscellaneous

Applicant	Background and Decision
Company A *(MB applicant) (2024)* Rule reference: MB Rule 2.13	*Background* 1. Company A (PRC incorporated) developed, produced and sold food products in Mainland China. 2. Company A's Chinese and English names in the AP contained a term ("**Term**") unrelated to its business. The Exchange requested Company A to substantiate that its name would not be misleading or otherwise amend it. 3. Company A submitted that it would be unduly burdensome and detrimental to its business operation to change its name, and that the change of company name would entail complex and costly processes. Company A included a statement ("**Statement**") on the "Important page" of the AP specifying that it was not engaged in the business related to the Term. *Decision* 4. The inclusion of the Term in Company A's Chinese and English names was misleading and the Exchange's concern was not alleviated by the addition of the Statement. The Exchange decided that Company A should change both its Chinese and English names to exclude the Term and to ensure that Company A's name accurately described its business.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 449

Annex B – Frequently Asked Questions

Annex B.1 Qualification for GEM Transfer

FAQ 1 When can a GEM issuer submit a transfer application under MB Chapters 9A and 9B?

A GEM issuer applying for transfer under:

(i) MB Chapter 9A must have published its annual report for the first full financial year after its initial listing; and

(ii) MB Chapter 9B must have published its annual reports for the three full financial years following its initial listing.

For example, below is the earliest timeline for a GEM issuer with a December year end to submit a transfer application:

Applicable MB Chapter	Year end	Initial GEM listing	Earliest time to submit a transfer application
MB Chapter 9A	December	November 2022	After 2023 annual report has been published and distributed to its shareholders.
MB Chapter 9B	December	November 2022	After 2025 annual report has been published and distributed to its shareholders.

MB Rules 9A.02(2), 9B.03(1)

FAQ 2 How would the Exchange assess whether a GEM issuer meets the minimum market capitalisation requirement under MB Chapter 8 ("Market Cap Requirement")?

Under MB Rule 9A.02(1), a GEM issuer must meet all qualifications for listing on the Main Board, including the Market Cap Requirement. For this purpose, the market capitalisation should be calculated using the share price on the date of listing on the Main Board. In practice, the Exchange will calculate the market capitalisation using the closing share price on the trading day immediately before the first day of the proposed transfer.

The Exchange will also examine the GEM issuer's share price movement and assess whether the Market Cap Requirement was met during the trading record period. If the GEM issuer failed to meet the Market Cap Requirement for a prolonged period of time during the trading record period and had unusual share price movement (especially for any increase close to the day of transfer), the Exchange may:

(i) Not approve the transfer application until a reasonable and satisfactory explanation is provided by the GEM issuer and its sponsor; and

(ii) Require the GEM issuer to make prominent disclosure in its transfer announcement or listing document on the volatile share price and/or trading volume.

MB Rules 9A.02(1), 9B.03(2)
GEM Rule 9.24

WYBOTICS EX1041
Wybotics v. Zodiac
Page 451

FAQ 3 How should a GEM issuer calculate the volume weighted average market capitalisation requirement under MB Rule 9B.03(2)?

1. List the daily market capitalisation (determined by the number of total issued shares and the intraday volume weighted average price) and daily number of shares traded over the 250 trading days immediately preceding the relevant transfer application and until the commencement of dealings in the GEM issuer's securities on the Main Board (the "**Reference Period**"). *(Columns A, B and C of the table below)*

2. If there was any corporate action during the period, calculate the adjusted number of shares traded (e.g. two-for-one share sub-division results in an adjustment factor of 2, one-for-five share consolidation results in an adjustment factor of 0.2). *(Column D of the table below)*

3. Calculate the total adjusted number of shares traded over the Reference Period and derive the weight for each trading day. *(Columns D and E of the table below)*

4. Calculate the volume weighted average market capitalisation (i.e. the weighted sum of the market capitalisation on each trading day). For example, in the following table, the weighted sum would be HK$500 million x 0.40% + HK$550 million x 0.48% + … + HK$650 million x 0.32% + … *(Column F of the table below)*

Reference Period	Market Capitalisation (HK$ million)	Number of Shares Traded	Adjusted Number of Shares Traded	Weight	Volume weighted average market capitalisation (HK$ million)
(A)	*(B)*	*(C)*	*(D) = (C)*adjusted factor*	*(E) = (D)/Sum of (D)*	*(F) = (B) x (E)*
1	500	1,000	2,000	0.40%	2.0
2	550	1,200	2,400	0.48%	2.6
…	…	…	…	…	…
99	600	1,500	3,000	0.60%	3.6
100 (effective date of share sub-division)	**650**	**1,600**	**1,600**	**0.32%**	**2.1**
101	700	1,700	1,700	0.34%	2.4
…	…	…	…	…	…
250	750	1,800	1,800	0.36%	2.7
		TOTAL	**500,000**	**100%**	**≥ 500**

Table – illustrative example for a two-for-one share sub-division effective from 100th day

MB Rules 8.05(2)(d), 8.05(3)(d), 8.09(2), 9B.03(2)

FAQ 4 How can a GEM issuer confirm (for the purpose of meeting the requirement under MB Rule 9A.02(3)) if there is an open Exchange investigation into its compliance before it submits a transfer application?

The Exchange will, upon the request of a GEM issuer, provide the GEM issuer with a written confirmation on whether it fulfils the requirement under MB Rule 9A.02(3) as at the date of such confirmation.

If additional information that alters such confirmation comes to light within two months of the letter, the Exchange will notify the GEM issuer in writing.

MB Rule 9A.02(3)

FAQ 5 What factors would the Exchange take into consideration in assessing whether a breach of the Listing Rules by a GEM issuer is "serious" for the purpose of assessing its eligibility for a transfer to the Main Board?

The Exchange normally considers the following factors:

(i) The nature, extent, duration and frequency of the breach (e.g. whether it involves any prejudice or risk of prejudice to investors such as failure to obtain prior shareholder approval for connected transactions, or failure to make disclosure under GEM Rule 17.10); and

(ii) Whether there is evidence that the breach involves fraud, deceit or dishonesty, is intentional or due to recklessness, or reveals material or systemic weaknesses in the GEM issuer's internal control procedures.

MB Rule 9A.02(3)
GEM Rule 17.10

FAQ 6 Can a GEM issuer fulfil the compliance record requirement of MB Rule 9A.02(3) if it was held to have committed a serious breach of the Listing Rules that was subsequently overturned by the GEM Listing Review Committee/Listing Review Committee?

Yes.

In addition, a GEM issuer may apply for a transfer under MB Chapters 9A and 9B in each of the following scenarios: (i) if investigations by the Exchange are not leading or have not led to any disciplinary proceedings; or (ii) upon conclusion of the disciplinary proceedings there is no finding of any serious breach of the Listing Rules.

MB Rule 9A.02(3)

FAQ 7 Where a GEM issuer has successfully transferred its listing to the Main Board, will it still be held accountable for breaches of the Listing Rules committed when it was listed on GEM?

Yes.

GEM Rule 3.10

FAQ 8 Will the Exchange allow existing shares to be traded on GEM, while new shares (issued on or before the transfer of listing) being traded on the Main Board (i.e. parallel trading)?

No. Parallel trading of securities of the same issuer on both boards is not allowed. There should be a clear-cut date for cessation of trading on GEM and commencement of trading on the Main Board.

MB Rules 9A.11, 9B.02

FAQ 9 Will trading in the shares of a GEM issuer be halted or suspended at any time during the transfer process?

GEM issuers are required to observe the trading halt or suspension policy and the general disclosure obligations under the GEM Rules as long as they are listed on GEM. A GEM issuer must assess whether the information relating to the transfer process would require disclosure under GEM Rule 17.10, having considered its particular circumstances. A trading halt or suspension would be necessary in any of the circumstances described in GEM Rules 17.11A(1) to (3) where an announcement cannot be made promptly.

MB Rules 9B.08, 11.04
GEM Rules 9.26, 17.10, 17.11A(1) to (3)

Annex B.2 Overseas Issuers

FAQ 1 Will the Exchange consider granting a waiver from compliance with any core shareholder protection standards ("Core Standards") for an overseas issuer?

This depends on the facts and circumstances of an individual case. For example, the Exchange may consider granting a waiver if a Core Standard is legally impossible for an overseas issuer to comply with because it conflicts with the laws and regulations of its place of incorporation.

Normally a deviation from a Core Standard will not be granted if the Exchange considers that such variation may be detrimental to shareholder protection.

Furthermore, an overseas issuer cannot rely on the statutory minimum requirements under applicable laws that deviate materially from market norms in Hong Kong.

MB Appendix A1
GEM Appendix A1

FAQ 2 If an applicant is making a confidential filing and cannot hold a general meeting to amend its constitutional documents to conform to the Core Standards prior to listing on the Exchange, will the Exchange grant a waiver from strict compliance with the Core Standards for the interim period from the listing date to the next general meeting?

The Exchange may consider granting a waiver to allow such applicant to have until its next general meeting after listing on the Exchange to amend the constitutional documents, provided that the applicant undertakes to (i) conform to all Core Standards during the interim period; and (ii) hold a general meeting to amend the constitutional documents as soon as possible after the listing.

MB Appendix A1
GEM Appendix A1

FAQ 3 What information needs to be included in the Company Information Sheet?

The information expected to be included in a Company Information Sheet is set out in MB Rules 19.60(1) to (4) (GEM Rules 24.27(1) to (3)).

For a primary listed or dual primary listed issuer, the overseas issuer is only required to include the specific information in its Company Information Sheet if any of the criteria stated in sub-paragraphs (1) to (4) of MB Rule 19.60 (sub-paragraphs (1) to (3) of GEM Rule 24.27) applies. For example, where criterion (1) applies, that is, novel waivers are granted to the overseas issuer and none of the other criteria are applicable, the overseas issuer is only required to include a summary of the novel waivers in its Company Information Sheet.

MB Rules 19.60, 19C.10B(7), 19C.24
GEM Rule 24.27

WYBOTICS EX1041
Wybotics v. Zodiac
Page 455

FAQ 4 What are considered to be novel waivers under MB Rule 19.60(1) (GEM Rule 24.27(1))?

The purpose of a Company Information Sheet is to provide investors with additional information on an overseas issuer to enable them to make an informed investment decision taking into account all relevant circumstances of the overseas issuer. An overseas issuer should exercise its judgement in assessing what constitute novel waivers.

Below are non-exhaustive examples:

(i) Compliance of any Core Standards or any other Listing Rules which affect shareholders' rights;

(ii) MB Rules 4.10 and 4.11, and Note 2.1 to paragraph 2 of MB Appendix D2 (GEM Rules 7.11, 7.12 and 18.04) requiring an overseas issuer to prepare its financial statements in the listing document and the subsequent financial reports issued after listing to be in conformity with: (a) HKFRS; (b) IFRS; or (c) CASBE;

(iii) MB Rules 8.08(1), 8.09(1), 13.32 and 13.33 (GEM Rules 11.23(2)(a), 11.23(7), 11.23(11) and Note 5 to GEM Rule 11.23) relating to minimum public float and minimum percentage of public holdings requirements;

(iv) MB Rules 10.05 and 10.06 (GEM Rules 13.03 to 13.14) relating to the restrictions and notification requirements on issuers purchasing their own shares on a stock exchange; and

(v) Any provisions of the Takeovers Code/SFO.

In general, the Exchange would not ordinarily regard the following as novel waivers:

(i) Specific disclosure in the listing document on the offering and/or placing of shares at the time of IPO (e.g. dealing in shares prior to listing and clawback mechanism); and

(ii) MB Chapter 14A (GEM Chapter 20) waivers in respect of any continuing connected transactions.

MB Rules 4.10, 4.11, 8.08(1), 8.09(1), 10.05, 10.06, 13.32, 13.33, 19.60, 19C.10B(7), 19C.24, MB Chapter 14A and Note 2.1 to paragraph 2 of MB Appendix D2
GEM Rules 7.11, 7.12, 11.23, 13.03 to 13.14, 18.04, 24.27 and GEM Chapter 20

WYBOTICS EX1041
Wybotics v. Zodiac
Page 456

FAQ 5 What information should be submitted to the Exchange when making an application for a statement of no objection ("SNO")?

The SNO application must be made in writing. Based on all relevant facts and circumstances, the overseas issuer should provide an explanation that supports the SNO application, and all other relevant information that it reasonably believes should be brought to the Exchange's attention, including but not limited to:

(i) Details of the PIE Engagement and role of the overseas audit firm acting as:

  (a) Auditors; and/or

  (b) Reporting accountants.

(ii) Information of the overseas issuer or the business, company or companies being acquired (collectively, "**target**" in the case of an acquisition), including its name, address, place of incorporation and nature of the business of the group/target.

(iii) Information of the overseas audit firm, including:

  (a) Having an international name and reputation;

  (b) Being a member of, or registered with, an accountancy body (specify the name of accountancy body in the home country) that is a member of the International Federation of Accountants[1]; and

  (c) Being subject to independent oversight by a regulatory body of a jurisdiction (specify the name of regulatory body in the home country) that is a signatory to the IOSCO MMOU[2].

(iv) Auditing and financial reporting standards adopted in relation to the PIE Engagement.

(v) Reasons for engaging an overseas audit firm to undertake the PIE Engagement[3], such as:

[1] A SNO issued by the Exchange is one of the eligibility criteria to be a Recognised PIE Auditor. There is no indication that the overseas audit firm mentioned in the SNO will be approved by the AFRC, as the AFRC has the following additional criteria:
  (i) The overseas audit firm is subject to the regulation of an overseas regulatory organisation recognised by the AFRC; and
  (ii) The overseas audit firm has adequate resources and possesses the capability to carry out a PIE Engagement for the overseas issuer.
  Generally, an overseas regulatory organisation is recognised by the AFRC if it is a member of the International Forum of Independent Audit Regulators or from a jurisdiction which has attained equivalence status granted by the European Commission under Article 46 of the Statutory Audit Directive 2006/43/EC. For details, please refer to the AFRC's website.

[2] It would be acceptable if the relevant audit oversight body is not a signatory to the IOSCO MMOU but the securities regulator in the same jurisdiction is a full signatory to the IOSCO MMOU.

[3] The Exchange will consider exercising its discretion not to issue a SNO if the overseas issuer fails to satisfy the Exchange of its reasons for its engagement of an overseas audit firm to undertake the PIE Engagement.

(a) The overseas audit firm has a geographical proximity and familiarity with the businesses of that overseas issuer or the target;

(b) That overseas issuer or the target is listed on a Recognised Stock Exchange (as defined in MB Rule 1.01 (GEM Rule 1.01)), and the overseas audit firm is the auditor of that overseas issuer or the target; and/or

(c) The overseas audit firm is the statutory auditor of that overseas issuer or the target.

MB Rules 1.01, 4.03, 19.20, 19C.16
GEM Rules 1.01, 7.02, 24.13

FAQ 6 Does an overseas issuer need to apply for a waiver from compliance with MB Rule 4.03 (GEM Rule 7.02), in addition to seeking the SNO, when it plans to appoint an overseas audit firm as reporting accountants for its PIE Engagement?

Yes. The waiver and SNO are granted on a case-by-case basis.

The overseas issuer is required to submit a waiver application together with its SNO application. The Exchange will grant this waiver, provided that the overseas audit firm is recognised by the AFRC. The overseas issuer should also disclose this waiver, including details and reasons, in the listing document.

MB Rule 4.03
GEM Rule 7.02

FAQ 7 Does an overseas issuer have to disclose in its listing document that its auditors or reporting accountants for a PIE Engagement are the Registered or Recognised PIE Auditors?

Yes.

MB Rules 4.03, 19.20, 19C.16
GEM Rules 7.02, 24.13

WYBOTICS EX1041
Wybotics v. Zodiac
Page 458

FAQ 8 Does an overseas issuer need to disclose the name of the auditors after listing in the listing document?

Yes. If the overseas issuer initially engaged a Hong Kong audit firm as its reporting accountants for preparing the accountants' report in the listing document but intends to appoint an overseas audit firm as its auditors after listing, it should obtain a SNO from the Exchange and submit a recognition application to the AFRC. If the AFRC's consideration of the application is still pending at the time of publishing the listing document, this fact should be disclosed.

MB Rules 4.03, 19.20, 19C.16
GEM Rules 7.02, 24.13

WYBOTICS EX1041
Wybotics v. Zodiac
Page 459

Annex B.3 Special Purpose Acquisition Companies

FAQ 1 If SPAC Promoter A holds the Promoter Shares through a SPV, should the SPV itself also be regarded as a SPAC Promoter?

No, as long as the SPV's sole purpose is to hold Promoter Shares on behalf of SPAC Promoter A (as permitted under the Note to MB Rule 18B.27).

The SPV is expected to give an undertaking to the Exchange and the SPAC that so long as it has any direct or indirect interest in any Promoter Shares and/or Promoter Warrants, it will comply with the provisions of the MB Rules which apply to SPAC Promoter A.

MB Rules 1.01, 18B.26, 18B.27

FAQ 2 Should an entity be regarded as a SPAC Promoter if it controls the beneficial ownership of Promoter Shares?

If so, should all levels in the control chain be regarded as a SPAC Promoter, or is a SPAC permitted to identify which entity it believes should be treated as a SPAC Promoter within the control chain?

In general, holding a controlling stake in an identified SPAC Promoter in itself would not result in that controlling shareholder being regarded as a SPAC Promoter. A SPAC should identify the entities in its shareholding structure that should be regarded as SPAC Promoters for the purpose of the MB Rules, and such entities must satisfy the suitability and eligibility requirements set out in MB Rule 18B.10.

In addition, according to MB Rule 18B.27, a SPAC must only allot, issue or grant Promoter Shares or Promoter Warrants to a SPAC Promoter, which may hold these securities through SPVs. As such, a SPV holding Promoter Shares on behalf of a SPAC Promoter should not have any minority shareholders who are not SPAC Promoters.

SPAC Promoters and SPVs holding Promoter Shares and Promoter Warrants should undertake to the Exchange and the SPAC that they will comply with the relevant provisions of the MB Rules for so long as they hold any direct or indirect interests in any Promoter Shares and/or Promoter Warrants.

MB Rules 1.01, 18B.10, 18B.26, 18B.27

WYBOTICS EX1041
Wybotics v. Zodiac
Page 460

FAQ 3 Can multiple SPAC Promoters beneficially own Promoter Shares through a common SPV?

Yes. The Exchange may impose additional conditions on the multiple SPAC Promoters having regard to the specific facts and circumstances of each case (e.g. any departure or change in shareholdings by the multiple SPAC Promoters in the common SPV will be regarded as a material change of SPAC Promoter under MB Rule 18B.32).

MB Rule 1.01, Note 1 to MB Rule 18B.32

FAQ 4 To what extent the investment experience of a SPAC Promoter should be disclosed in the listing document under MB Rule 18B.10 and paragraph 6 of Chapter 2.4 of the Guide?

The sponsor and the applicant should take into account the following when disclosing the investment experience of a SPAC Promoter:

- A balanced and fair view should be presented, instead of cherry picking of information (e.g. only disclosing the relevant funds' performance over a particular investment period in which the funds have better performance, or disclosing the performance of selected funds with positive returns and omitting those funds with negative returns);
- Fund performance (e.g. internal rate of return (IRR), multiple on invested capital (MOC), distributions to paid-in capital (DPI) for private equity funds) should be presented on a year-to-year basis, specifying the launch date of each fund. When comparing the funds' performance with industry performance indexes, comparison should be made on a year-to-year basis over the same investment period; and
- For private equity funds, where the fund portfolio includes realised and unrealised/partially realised positions, disclosure should include the relative size of the respective positions and their valuation methods and their respective time of investment and divestment.

MB Rule 18B.10

FAQ 5 **Is it acceptable for the funding for SPAC expenses to be separated from the obligations of a SPAC Promoter? For example, can a SPAC be established by a group that obtains the funding for its expenses from an affiliate within the group that is not a SPAC Promoter?**

No. A SPAC Promoter must incur all (or a pro rata portion of) the expenses to establish and maintain a SPAC. SPAC Promoters should regard this as their "capital at risk" to help ensure that their interests are aligned with the interests of SPAC shareholders, and such expenses should therefore not be recoverable if a De-SPAC Transaction is not completed.

The amount provided by a SPAC Promoter to fund the SPAC's expenses should also be commensurate with its beneficial interest in the Promoter Shares.

A SPAC Promoter can obtain a loan from its affiliate or use a capital contribution from its own shareholders (if any) to fund a SPAC's expenses. However, the entities granting the loans or injecting capital to the SPAC Promoter should not have any rights to request repayment of the loans from, or make any claims against, the SPAC.

MB Rule 18B.10

FAQ 6 **Will the requirement for the SFC-licensed SPAC Promoter to hold at least 10% of the Promoter Shares be satisfied if it has only voting control of a 10% (or more) interest in the SPAC's Promoter Shares without a commensurate beneficial economic interest in the Promoter Shares?**

No. The SFC-licensed SPAC Promoter must have a corresponding economic interest to help ensure that its interests are aligned with the interests of SPAC shareholders.

MB Rules 18B.10, 18B.11

FAQ 7 **If a SPAC has multiple SPAC Promoters, must the SFC-licensed SPAC Promoter(s) have relevant management/investment experience (required by paragraph 6 of Chapter 2.4 of the Guide) or is it sufficient for other SPAC Promoter(s) to meet this requirement?**

The Exchange takes a holistic approach in determining the suitability and eligibility of a SPAC Promoter.

For example, if the key SPAC Promoter (e.g. holding a significantly large and dominant interest in the Promoter Shares) has demonstrated extensive management/investment experience, while the SFC-licensed SPAC Promoter holding a minority interest in the Promoter Shares has a relatively short operating history with a strong management team, the Exchange will consider all the relevant information, including the experience and competence of the board/management of the SPAC Promoters.

The Exchange might impose additional conditions on the SFC-licensed SPAC Promoter (e.g. any departure of the responsible officer with relevant management/investment experience from the SFC-licensed SPAC Promoter will be regarded as a material change in SPAC Promoter under MB Rule 18B.32).

MB Rules 18B.10(1), 18B.32

FAQ 8 Can a SPAC Promoter set up a trust to hold part of its Promoter Shares for the purpose of an equity incentive plan to benefit the SPAC Promoter's nominated SPAC Directors and certain of its other senior management and employees ("Plan Participants")? If not, would this be permissible if the Plan Participants only received SPAC Shares that result from the conversion of the Promoter Shares following a De-SPAC Transaction and the listing of the Successor Company?

No. The proposed equity incentive arrangement would circumvent the requirement of MB Rules 18B.26 to 18B.27 that Promoter Shares must only be granted to SPAC Promoters. Also, the Plan Participants will not have made a corresponding economic contribution to justify the grant of Promoter Shares to them.

The grant of SPAC Shares (converted from Promoter Shares) to Plan Participants would also be prohibited as this would represent only a difference in the form in which the benefit is granted and would not change the fact that the Plan Participants: (a) are not SPAC Promoters; and (b) did not contribute commensurate "capital at risk" to be entitled to the benefits of the Promoter Shares.

MB Rules 18B.26, 18B.27

FAQ 9 Can a SPAC issue SPAC Shares at nil consideration for the purpose of remunerating the INEDs?

No. Subject to the provisions under MB Rule 3.13, an INED of a SPAC may subscribe for SPAC Shares with his own resources, provided that the INED is a Professional Investor.

MB Rules 3.13, 18B.07

FAQ 10 What is the obligation of the SPAC and/or trustee or custodian in terms of managing the total value of cash or cash equivalents held in the escrow account, in particular, in circumstances of market movements or currency fluctuation?

Under the Note to MB Rule 18B.18, upon listing of the SPAC, it is the SPAC's responsibility to ensure that funds are held in a form that allows them to meet the requirement to give full redemption to its shareholders under MB Rules 18B.57 and 18B.74. This generally includes proper management of any exposure to:

(i) Currency fluctuations (e.g. minimising conversion of the proceeds raised to other currencies); and

(ii) Market condition related risk, (e.g. ensuring compliance with the requirements on "cash and cash equivalents" under MB Rule 18B.18 and paragraph 12 of **Chapter 2.4** of the Guide).

MB Rules 18B.18, 18B.57, 18B.74

FAQ 11 Can a trustee accepted by the SFC as a trustee of a REIT be considered as having the qualifications required under MB Rule 18B.17?

The Exchange will take a case-by-case approach to determine whether a trustee or custodian would be considered as having the qualifications required under MB Rule 18B.17.

Further, item (i) under "Qualification" in paragraph 35 of **Chapter 2.4** of the Guide provides that a trustee or custodian that has already been accepted by the SFC in respect of existing Collective Investment Schemes authorised by the SFC will be considered as having the qualifications required under MB Rule 18B.17. Generally, a trustee or custodian that has been accepted by the SFC in respect of a REIT authorised by the SFC will be considered as having the qualifications required under MB Rule 18B.17.

MB Rule 18B.17

WYBOTICS EX1041
Wybotics v. Zodiac
Page 464

FAQ 12 Would the independence of third party investors who invest in a De-SPAC Transaction be affected by:

(i) The third party investor having participated in the initial offering of the SPAC; or
(ii) Co-investments with a SPAC Promoter in transactions unrelated to the SPAC or the De SPAC Transaction?

(i) Subject to the independence requirements set out in paragraph 15 of **Chapter 2.4** of the Guide being met and absent other factors, an investor who has participated in the SPAC's initial offering would be allowed to invest in a De-SPAC Transaction if the conditions for placing shares to existing shareholders as set out in paragraph 13 of **Chapter 4.15** of the Guide are met.

(ii) Participation in co-investments would not normally, by itself, result in a failure to meet the independence requirement. However, the Exchange retains the discretion to deem any investor to be not independent based on the facts and circumstances of an individual case.

MB Rules 13.84(4), 18B.40

FAQ 13 The Fees Rules state that the initial listing fee for an applicant must be calculated on the basis of the "monetary value of the equity securities to be listed". Should the applicant assume that the SPAC Warrants have a monetary value of zero for the purpose of calculating this fee?

The monetary value of SPAC Warrants will be zero if there is no issue price. Accordingly, the initial listing fee for SPAC Warrants will be HK$150,000 based on the MB Fees Rules.

Paragraph 1 of MB Fee Rules

Annex B.4 Mineral Companies

FAQ 1 In calculating the 25% size test for Major Activity, are costs incurred for processing, refining and marketing activities allowed to be included as operating costs?

Yes, if a Mineral Company conducts exploration, extraction, subsequent processing, refining and marketing of its Reserves and Resources as part of its ordinary course of business. Companies that are only engaged in refining activities will not be regarded as Mineral Companies.

MB Rule 18.01(3)
GEM Rule 18A.01(3)

FAQ 2 Does the term "extraction" in MB Chapter 18 (GEM Chapter 18A) encompass "production"?

Yes. The terms "extraction" and "production" can be used interchangeably.

MB Rule 18.01(3)
GEM Rule 18A.01(3)

FAQ 3 How can an applicant demonstrate it has "adequate rights" under MB Rule 18.03(1)(b) (GEM Rule 18A.03(1)(b))?

Companies can demonstrate that they have adequate rights if (i) they participate in mineral and/or exploration activity under joint ventures, product/profit sharing agreements or other valid arrangements; and (ii) such agreements give them sufficient influence over the exploration for and extraction of Resources and Reserves, which we ordinarily would expect to be at least 30% interest in the exploration for and/or extraction of Natural Resources. This corresponds with the level of "controlling" interest under the Listing Rules.

The Exchange may consider other arrangements where an applicant has interests lower than 30% but actively operates mining projects depending on the facts and circumstances of each case. For example, (i) exploration/extraction rights granted under specific government mandates; and (ii) the ability of an applicant to veto resolutions can also demonstrate the applicant has adequate rights to give sufficient influence.

MB Rules 18.03(1)(b), 18.07
GEM Rules 18A.03(1)(b), 18A.07

FAQ 4 What does "control of over a majority of assets in which it has invested" in MB Rule 18.03(1)(a) (GEM Rule 18A.03(1)(a)) mean?

It means the Mineral Company must have an interest greater than 50% (by value) in its total assets (which shall have the same meaning as defined in MB Rule 14.04(12) (GEM Rule 19.04(12))).

MB Rules 18.03(1)(a), 14.04(12)
GEM Rules 18A.03(1)(a), 19.04(12)

FAQ 5 What are some examples of "material cost items" in the note to MB Rule 18.03(3) (GEM Rule 18A.03(3)) that should be highlighted to investors?

They include items such as (i) favourable tax treatment for a limited period of time or may be subject to challenge; and (ii) a temporary disruption to transport routes which led to increased costs for a limited time.

MB Rule 18.03(3)
GEM Rule 18A.03(3)

FAQ 6 When determining whether an applicant meets the 125% working capital requirement, (i) what do "cost of any proposed exploration and/or development" under MB Rule 18.03(4)(c) (GEM Rule 18A.03(4)(c)) and "capital expenditures" in the note to MB Rule 18.03(4) (GEM Rule 18A.03(4)) include; and (ii) how are refinancing of loan repayments accounted for?

The cost of proposed exploration and/or development under MB Rule 18.03(4)(c) (GEM Rule 18A.03(4)(c)) relates to cost of daily operation (i.e. working capital) such as contracting fees for excavating the minerals and transportation fees for delivering the minerals.

Capital expenditures mentioned in the note to MB Rule 18.03(4) (GEM Rule 18A.03(4)) relate to expenditures associated with development of infrastructure of the mines and expansion of the processing facilities, etc. There is no need to include capital expenditures to demonstrate compliance with the 125% working capital requirement.

If loan repayment is required during the 12-month period, applicants should include the repayment in its 125% working capital analysis. Below is a simplified illustration of the 125% working capital analysis, assuming that the borrowings will be drawn down and repaid within the 12-month period, and the proceeds from the borrowings will be fully used to finance the capital expenditures in the case with external financing:

	Without external financing	With external financing
Cash at the beginning of the period	300	300
Operating cash inflow *(note 1)*	1,300	1,300
Proceeds from borrowings	-	500
Total working capital available (A)	**1,600**	**2,100**
Operating cash outflow *(note 2)*	1,000	1,000
Repayment of borrowings	-	500
Interest payments	-	40
Total working capital required (B)	**1,000**	**1,540**
Sufficiency of working capital (A/B)	**160%**	**136%**

Notes:
1. Operating cash inflow mainly represents receipt from sales.
2. Operating cash outflow includes payment for mining, transportation and utility expenses, and workforce.

MB Rules 18.03(4), 18.03(5)
GEM Rules 18A.03(4), 18A.03(5)

FAQ 7 What does "primary activity" in the note to MB Rule 18.04 (GEM Rule 18A.04) mean?

It means Mineral Companies relying on the exemption under MB Rule 18.04 (GEM Rule 18A.04) from MB Rule 8.05 (GEM Rule 11.12A) requirements must mainly focus on Natural Resource exploration and/or extraction, although this does not have to be their sole activity.

MB Rules 8.05, 18.04
GEM Rules 11.12A, 18A.04

FAQ 8 A Scoping Study is required to be substantiated by an opinion of a Competent Person under MB Rule 18.07 (GEM Rule 18A.07). What is a Scoping Study and must it be included in a Competent Person's Report ("CPR")?

A Scoping Study is a preliminary evaluation of a mining project to assess the economic viability of mineral Resources and whether or not a Mineral Company shall pursue the project. If a project passes a Scoping Study, it provides an indication that it is appropriate to proceed with further work and commission a Pre-feasibility Study. As such, Scoping Studies are only required for Mineral Companies which have not yet begun production and it can either form part of the CPR or be supported by the independent opinion of a Competent Person.

MB Rule 18.07
GEM Rule 18A.07

FAQ 9 Does an applicant need to ensure disclosures in the listing document are consistent with the related CPR?

Yes. In particular, the directors should ensure there is no mismatch between statements about Reserves and Resources in the listing document and in the CPR. Descriptions of Reserves and Resources in the listing document and in the CPR must also correspond to the specific categories in the Reporting Standards.

MB Rules 18.28 to 18.33
GEM Rules 18A.28 to 18A.33

FAQ 10 What information does the Exchange require when assessing whether a person has the relevant experience to act as the Competent Person?

The person should ensure there are sufficient details to demonstrate that the experience is relevant to the relevant mineral or petroleum assets. In general, the person is expected to provide a list of engagements showing his relevant experience with the following information:

(i) The period of each engagement;

(ii) A description of each project undertaken, including the location and the type of resources involved, and the relevance to the mineral or petroleum resources;

(iii) Details of any technical reports on the resources of the project, including the reporting standards and the use of the reports; and

(iv) Details of his/her role and responsibilities in the project and the preparation of any technical reports.

MB Rule 18.21(1)
GEM Rule 18A.21(1)

FAQ 11 **If the acquisition target reports its Reserve and Resource information using a different mineral report code (e.g. NI 43-101), whilst the Mineral Company reports using the JORC Code, would the Exchange accept both Reporting Standards?**

Yes, if the presentation of Reserves and Resources under the codes are very similar. For comparability, we will require the applicant to (i) disclose a reconciliation to one of the accepted Reporting Standards; and (ii) highlight any material differences in these Reporting Standards.

MB Rules 18.01(3), 18.28 to 18.33
GEM Rules 18A.01(3), 18A.28 to 18A.33

WYBOTICS EX1041
Wybotics v. Zodiac
Page 470

Annex B.5 Directors, Supervisors and Senior Management

FAQ 1

Will a director still face criminal liability for providing false or misleading information to the Exchange, notwithstanding that the submission of Form 5B under the MB Rules (or Form 6A under the GEM Rules) is no longer required?

Yes. Since the directors' undertakings under the repealed Form 5B under the MB Rules (or the repealed Form 6A under the GEM Rules) have been codified into the Listing Rules, if a director or supervisor provides information to the Exchange which is false or misleading in a material way, they may be in breach of section 384 of the SFO, and thus subject to the criminal sanctions imposed by that section.

MB Rules 3.09B, 3.09C, 3.09D
GEM Rules 5.02B, 5.02C, 5.02D

FAQ 2

If a director is involved in an investigation, hearing, proceeding or judicial proceeding, of which the disclosure is legally prohibited, what should be done to enable the Exchange to assess the director's suitability requirements under the Listing Rules and ensure that the listing document complies with the disclosure requirement in paragraph 41(1) of MB Appendix D1A (paragraph 41(1) of GEM Appendix D1A)?

The director and sponsor should evaluate if the investigation, hearing, proceeding or judicial proceeding is relevant to the director's competence or integrity. They should obtain consent from the regulator or authority to disclose the relevant details of the investigation, hearing, proceeding or judicial proceeding to the Exchange and for public disclosure.

If the Exchange determines that the investigation, hearing, proceeding or judicial proceeding raises significant concerns on the director's competence or integrity, it may affect the suitability of the individual to act as a director.

Subject to the Exchange's assessment on the director's suitability and consent from the regulator or authority, the relevant details of the investigation, hearing, proceeding or judicial proceeding should be disclosed in the listing document. If such information is not disclosed, the listing document will not comply with paragraph 41(1) of MB Appendix D1A (paragraph 41(1) of GEM Appendix D1A).

Applicants may submit pre-IPO enquiries to seek preliminary guidance from the Exchange.

Paragraph 41(1) of MB Appendix D1A
Paragraph 41(1) of GEM Appendix D1A

Annex B.6 Offering

These FAQs are not substitutes for the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L) (the "Class Exemption Notice") or the Listing Rules or advice from qualified professional advisers, and readers should refer to the Class Exemption Notice and the Listing Rules to understand the primary obligations and where necessary, seek qualified professional advice.

The terms "company" and "issuer" used in this annex have the same meaning as those defined or used in the Class Exemption Notice.

FAQ 1 to 6 and 8 to 15

[Repealed August 2025]

FAQ 7 Can investors rely on information on the company's (issuer's) website when deciding whether to invest in the company's shares?

No, investors should ensure that they only rely on information contained in the prospectus.

The issuer's website may contain information outside of the prospectus, including promotional information about the issuer or the public offer. However, the Exchange would expect the issuer to clearly delineate between prospectus information and non-prospectus information. Webpages on the issuer's website containing the electronic prospectus must not contain any promotional information about the issuer and the offer.

FAQ 16 How to check whether a document is downloadable for display and printing?

MB Rule 2.07C(2) (GEM Rule 16.18(1)) provides that all electronic copies of documents submitted by an issuer through HKEx-EPS to the Exchange for publication must be displayable on and printable from the Exchange's website. The Exchange also operates a hotline if any member of the public detects any malfunctioning on the Exchange's website.

MB Rule 2.07C(2)
GEM Rule 16.18(1)

Annex B.7 Land and Properties

FAQ 1 Is an applicant required to disclose a breakdown of property interests in the listing document under MB Chapter 5 (GEM Chapter 8)?

No.

MB Rule 5.01(1)
GEM Rule 8.01(1)

FAQ 2 For MB Rule 5.01(1) (GEM Rule 8.01(1)), should the full carrying amount be used for properties held by non wholly-owned subsidiaries?

Yes. For example, an 80%-owned subsidiary of an applicant holds a property interest with a carrying amount of $200 million. The carrying amount of $200 million should be used instead of $160 million.

MB Rule 5.01(1)
GEM Rule 8.01(1)

FAQ 3 Will an applicant's property interests be categorised into property activities if its core business is not property development or investment?

Yes. An applicant can engage in both property activities and non-property activities and should consider each property's use under MB Rule 5.01(2) (GEM Rule 8.01(2)). If a property is for letting or sale, it would be categorised into property activity.

MB Rule 5.01(2)
GEM Rule 8.01(2)

FAQ 4 Under what circumstances would (i) property interests held under joint operations; and (ii) property interests in a leased property be subject to MB Rule 5.01(2) (GEM Rule 8.01(2))?

When properties interests are recognised in the consolidated statement of financial position, the property interests will be subject to the requirements under MB Rule 5.01(2) (GEM Rule 8.01(2)).

MB Rule 5.01(2)
GEM Rule 8.01(2)

WYBOTICS EX1041
Wybotics v. Zodiac
Page 473

FAQ 5 How should an applicant identify properties up to the 10% limit under MB Rule 5.01A(1) (GEM Rule 8.01A(1))?

The Exchange would leave it to the applicant and its advisers to determine the method of identifying the properties comprising the 10% limit, subject to the 1% threshold under MB Rule 5.01A(1) (GEM Rule 8.01A(1)) and the general disclosure obligation under MB Rule 5.10 (GEM Rule 8.36).

In practice, an applicant generally identifies the carrying amount of each property interest and add up from the lowest values until the 10% limit is reached.

MB Rules 5.01A(1), 5.10
GEM Rules 8.01A(1), 8.36

FAQ 6 What is the timing reference point for the statement under MB Rule 5.01B(2)(b) (GEM Rule 8.01B(2)(b))?

The timing reference point for the statement is the listing document date.

MB Rule 5.01B(2)(b)
GEM Rule 8.01B(2)(b)

FAQ 7 How to determine the materiality of property interests to be disclosed under MB Rule 5.10 (GEM Rule 8.36)?

Applicant and sponsor are expected to consider materiality taking into account all the relevant facts and circumstances. Below is a non-exhaustive list of factors the applicant and sponsor may consider:

(i) Whether the property interest (individually or in aggregate) is used for a reportable segment of the applicant. If so, whether it contributes a significant portion of revenue to the applicant;

(ii) Whether there are any encumbrances on the property or use of the property that may, at any time, directly or indirectly impact the operations of the applicant's reportable segment;

(iii) Whether there are any defects relating to the property or its operations that may have material impact on the applicant's business or operations (e.g. breach of environmental regulations or title defects); and

(iv) Whether there is re-development potential for the property that may impact the applicant's financial position.

MB Rule 5.10
GEM Rule 8.36

Annex B.8 Placing-related Matters

FAQ 1

[Repealed August 2025]

FAQ 2 What additional information may be required to be submitted to facilitate regulators' review of the placee lists?

In addition to the requirements of MB Appendix F1 (GEM Rule 10.12) and the required fields of the placee lists to be completed and submitted in FINI, the following information should be provided. To facilitate the collection of such required information, please refer to the relevant questionnaires (accessible via the links on the Guide's website), and upload the completed questionnaires to FINI as supporting documents within the prescribed timeline as the placee lists are completed and submitted.

The list below is not intended to be exhaustive and the information required may vary depending on different facts and circumstances of each case:

Type of Placee[1]	Additional information required
Individual	(i) If the name of a placee's employer cannot be provided, explain why such information is unavailable in the "Remarks" column of the placee list template.
Corporate	(i) For an ultimate beneficial owner ("**UBO**") holding 30% or more interest: (a) Identity, identity cards (or if none, passport numbers and the jurisdiction of issuance) and background of the UBO; (b) UBOs' relationship with each of the applicant, its subsidiaries, controlling shareholders, and substantial shareholders (or an appropriate negative statement); and (c) If the UBO is a listed company, state its full name and stock code.

[1] A placee acting as a nominee is required to provide information on the party on whose behalf he/she/it holds the shares, as well as the ultimate beneficial owner of that party.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 475

Type of placee[1]	Additional information required
Fund **(excluding a SFC authorised fund or collective investment scheme)**	(i) If a fund meets the definition of a Discretionary Managed Portfolio (as defined under MB Appendix F1 (GEM Rule 10.12)), select "Discretionary Managed Portfolio" as the placee category in the placee list; (ii) If a sub-fund is the entity that will ultimately hold the offer shares, provide the information on such sub-fund in the relevant placee list and details of the fund manager in the beneficial ownership column of the placee list; (iii) Identity of the fund manager and the general partner(s); and (iv) Where an investor (i.e. limited partner or investment entity in the fund) holds 30% or more interests in such fund, irrespective of whether it is managed by SFC licensed fund manager or not: (a) Identity and background of such investor; (b) Identity and background of UBO which holds 30% or more interest in such investor; and (c) The relationship of the investor and its UBO (as identified in (iv)(b) above) with each of the applicant, its subsidiaries, controlling shareholders, and substantial shareholders (or an appropriate negative statement).
Swap Investor	(i) If an investor is participating in the IPO through back-to-back over-the-counter derivatives such as a total return swap arrangement (i.e. only having an economic exposure and not having any rights in the underlying shares), information on the swap investor should be submitted: (a) Identity and background of the swap investor; and (b) Relationship of the swap investor with each of the applicant, its subsidiaries, controlling shareholders, and substantial shareholders (or an appropriate negative statement).
PRC Governmental Body[2] related placee	(i) If the applicant is a state-owned-enterprise ("**SOE**") or that its controlling shareholders or substantial shareholders include SOEs, provide the following information: (a) Identity and principal business of the placee's UBO, which is a PRC governmental body; and (b) Whether the number of shares to be allotted are counted towards the public float and the relevant basis.

[2] As defined under MB Rule 19A.04 (GEM Rule 25.04(2)).

Type of placee[1]	Additional information required
	(ii) If the public float at the time of listing will be different from what has been disclosed in the listing document, an updated analysis of public float should be provided by the applicant, including the: (a) Number of shares and the identity of their holders (if the relevant holders are existing shareholders, pre-IPO investors, Cornerstone Investors) which are counted towards the public float; and (b) Percentage of public float in terms of issued share capital upon listing. The applicant should highlight the revised public float and the reasons for the change in the allotment results announcement.

Further information in relation to the placing may be required[3], including (i) order book for the placing tranche showing the name of placees, the number of shares ordered, the number of shares allotted, the date and time of the orders placed, and the method of placement of orders; (ii) a summary of the placees showing the respective (a) account opening dates; (b) nature (i.e. margin or cash account) of their accounts; and (c) account opening documents, telephone recording or email supporting the placement of orders, and any other appropriate supporting documents or evidence; and (iii) latest cash balance in the accounts.

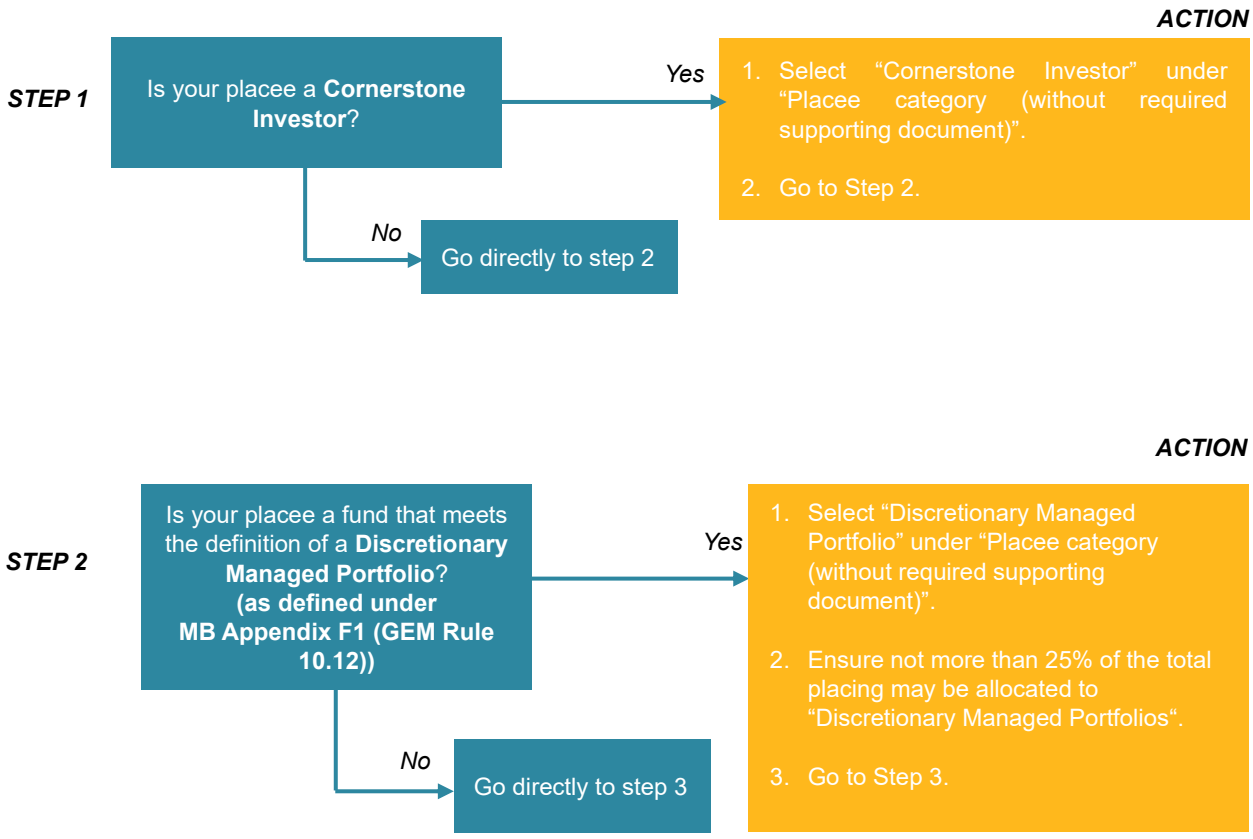
MB Rules 9.09A, 9.11(35), 9.23(2), 19A.04, MB Appendix F1
GEM Rules 10.12, 12.11A, 12.26(6), 25.04

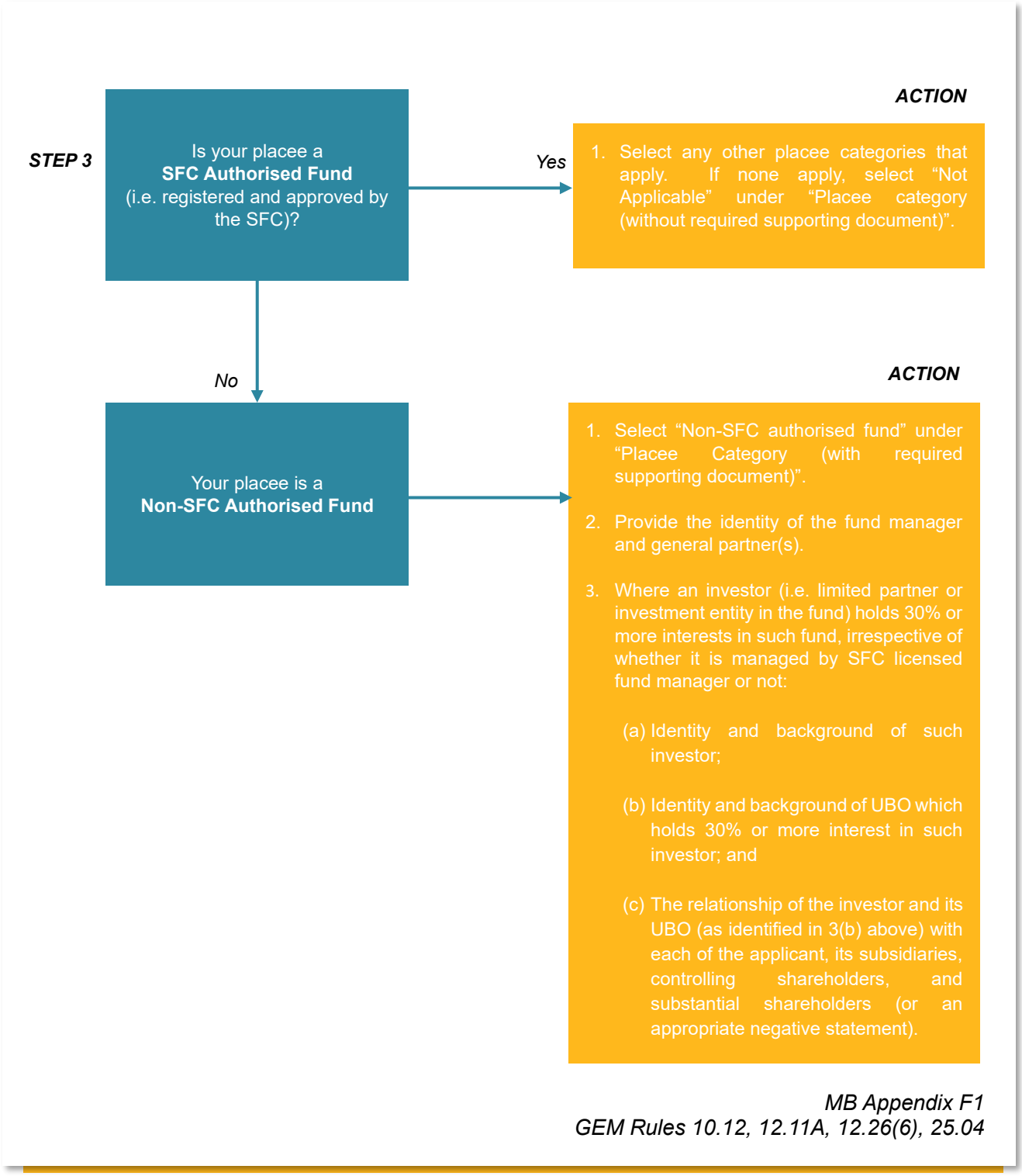
[3] Attention is drawn to the "Joint statement on IPO-related misconduct" issued by the Exchange and the SFC on 20 May 2021. The Exchange and the SFC may request an applicant to provide compelling evidence to demonstrate genuine investor demand to satisfy the Listing Rules requirements. In addition, an applicant may be required to demonstrate that the IPO price has been or will be determined through a robust and transparent price discovery exercise, including its strategies for investor targeting, marketing, pricing and allocation. The applicant should be prepared to explain any departure from these strategies.

FAQ 3 How should intermediaries select the appropriate placee categories in the placee list template provided by FINI?

Intermediaries must identify and select all placee categories which are applicable to their placees. If none of the placee categories are applicable, then the intermediary must select the "Not Applicable" category.

Set out below is an example illustrating the steps intermediaries should follow if the investor client is a corporate placee that is a fund and a Cornerstone Investor:




STEP 3
Is your placee a
SFC Authorised Fund
(i.e. registered and approved by the SFC)?
Yes
ACTION
1. Select any other placee categories that apply. If none apply, select "Not Applicable" under "Placee category (without required supporting document)".
No
Your placee is a
Non-SFC Authorised Fund
ACTION
1. Select "Non-SFC authorised fund" under "Placee Category (with required supporting document)".
2. Provide the identity of the fund manager and general partner(s).
3. Where an investor (i.e. limited partner or investment entity in the fund) holds 30% or more interests in such fund, irrespective of whether it is managed by SFC licensed fund manager or not:
(a) Identity and background of such investor;
(b) Identity and background of UBO which holds 30% or more interest in such investor; and
(c) The relationship of the investor and its UBO (as identified in 3(b) above) with each of the applicant, its subsidiaries, controlling shareholders, and substantial shareholders (or an appropriate negative statement).
MB Appendix F1
GEM Rules 10.12, 12.11A, 12.26(6), 25.04

Annex B.9 Hong Kong Depositary Receipts

FAQ 1 Can Hong Kong depositary receipts ("HDRs") be issued on products such as global depositary receipt (GDR), American depositary receipt (ADR), exchange-traded funds (ETFs), or exchange traded commodities (ETCs)?

No. The securities underlying the HDRs must be the shares of an issuer and not other products.

MB Chapter 19B

FAQ 2 Can warrants be issued on HDRs?

Yes. Provided that the HDR issuer meets the Exchange's criteria for the underlying stock for warrant issuance, warrants may be issued on HDRs.

MB Chapter 19B

FAQ 3 Can HDR issuers list without conducting an IPO such as by introduction?

Yes, the Exchange's existing listing regime applies to HDR issuers (see MB Chapter 7 for methods of listing), hence HDR issuers can list by introduction. However, an IPO may be required if significant public interest is expected.

MB Rule 19B.01, MB Chapter 7

FAQ 4 Can an HDR issuer apply for "headroom"?

Yes, HDR issuers may apply to list a greater number of HDRs than what will be issued for capital raising (i.e. "**headroom**") provided that all other listing requirements are met (e.g. public float). HDR issuers must ensure that listing approval has been sought for all HDRs traded in Hong Kong and the headroom is not exceeded. The depositary will monitor the level of outstanding HDRs and will not permit shares to be converted into HDRs if it is over the approved limit.

The following example illustrates a HDR issuer applying for "headroom":

An issuer has 100 shares and it wishes to raise capital by issuing the equivalent of 20 new shares in the form of HDRs on the Exchange. This would bring its outstanding share capital to 120 shares. In this case, assuming that the issuer already listed 10 shares in the domestic market, the issuer

considers that it must list a minimum of 20 shares on the Exchange in order to satisfy the public float requirement. To allow for possible future inflow (e.g. as a result of arbitrage), the issuer decides to apply for listing for 45 shares in the form of HDRs. The excess of 25 shares is called the "headroom".

This means that the issuer can make further issuance of HDRs up to the limit of the headroom, i.e. 25 shares more, without making a further application for listing of additional HDRs on the Exchange. Alternatively, inflow of shares into the Hong Kong market up to the limit of the headroom in the form of HDRs is also permitted without applying for their listing (any combination of HDRs issued for capital raising or issued as a result of conversion of underlying shares is permitted and listing approvals will be given for specific purposes and amounts). However, if the limit of 45 shares will be exceeded, application for listing must be made.

MB Rule 19B.07

FAQ 5 What are the listing fees for HDR issuers?

The listing fees for HDR issuers follow the same schedule as for issuers of shares, i.e. MB Fees Rules applies. Initial listing fees should be calculated with reference to the monetary value of the equity securities to be listed, which is the monetary value of the shares represented by the HDRs, or in the case of listing by introduction, the market capitalisation of the issuer (see MB Fees Rules 1(3)). In the case of the annual listing fee, the term 'nominal value' in MB Fees Rules refers to the nominal value of the shares represented by the HDRs.

MB Fees Rules

FAQ 6 How is the HDR issuer's public float calculated?

HDR issuers are required to comply with the minimum prescribed percentage of public float under MB Rule 8.08(1).

Where the HDRs listed in Hong Kong are fungible with the underlying shares, the total shares and shares represented by HDRs of the issuer held by the public on both the Exchange and any overseas market(s) concerned will count towards the public float under MB Rule 8.08(1).

MB Rules 8.08(1), 19B.08

FAQ 7 Does the requirement for pre-emptive rights under MB Rule 13.36 apply to the HDRs or to the issuer's shares?

The requirements of MB Rule 13.36 apply to the issuer's shares.

MB Rule 13.36

FAQ 8 Are retail investors allowed to buy HDRs?

Yes.

MB Rule 19B.09

FAQ 9 What fees do investors pay in relation to HDRs?

As with buying and selling shares, brokerage commission, SFC transaction levy, AFRC transaction levy, trading fee and stamp duty are applicable to HDRs.

Other fees associated with HDRs, such as depositary fees, are disclosed in the deposit agreement (which is a public document) and are not regulated by the Exchange.

MB Rule 19B.16(q)

FAQ 10 Through what ways can HDR holders enforce their rights under the deposit agreement?

Investors should read the deposit agreement to understand what their rights are and how they may be exercised and, if necessary, consider consulting their legal advisers.

Although the HDR holder is not a party to the deposit agreement (which is executed by the depositary and the HDR issuer), the HDR issuer and the depositary execute a legal instrument (e.g. a deed poll) in favour of HDR holders such that the HDR holders will be able to enforce the rights set out in the deposit agreement against the HDR issuer and the depositary.

MB Rule 19B.16

FAQ 11 Where can HDR holders access the deposit agreement?

The deposit agreement is a material contract and must be summarised in the listing document[1]. An HDR issuer should ensure that the deposit agreement can be accessed on the HDR issuer's and Exchange's websites.

MB Appendix D1E

FAQ 12 How can the deposit agreement be amended?

In order to protect HDR holders' interests, MB Rule 19B.16(s) provides that any material change to the deposit agreement which affects HDR holders' existing rights and obligations would require prior notice to and the consent of HDR holders. Other amendments to the deposit agreement may become effective after giving an advance notice to HDR holders or by agreement between the HDR issuer and the depositary.

MB Rule 19B.16(s)

FAQ 13 Whether dividend payments on HDRs are subject to overseas withholding tax?

Whether overseas withholding tax is applicable depends on the laws and regulations of the overseas jurisdiction concerned. HDR holders should refer to the relevant disclosures in the listing documents and, if necessary, seek advice from their tax advisers.

MB Chapter 19B

[1] Under the C(WUMP)O, the original deposit agreement upon listing (as one of the material contracts) must be registered with the prospectus and a copy would be made available at the Registrar of Companies upon a fee payment.

FAQ 14 Can investors hold HDRs in physical form (i.e. in scrip)?

Yes, as in the case of shares, HDR holders have the option of withdrawing HDR scrip from, or depositing HDR scrip into, CCASS. However, to trade on the Exchange, HDRs must be deposited in CCASS via broker or custodian and will be traded and settled on a book-entry electronic basis.

MB Rule 19B.19

FAQ 15 What are the procedures for deposit and withdrawal of HDR certificates into/from CCASS?

HDRs, upon admission as eligible securities of CCASS, can be physically deposited into/ withdrawn from CCASS. The deposit and withdrawal procedures are the same as those currently applied to other eligible securities of CCASS.

MB Chapter 19B

FAQ 16 Will CCASS be involved in the creation and cancellation of HDRs?

No. An investor or intermediary who wishes to create or cancel HDRs should apply to the relevant depositary directly. For creation, after the HDRs are created, the investor or intermediary can physically deposit the HDR certificates into CCASS for custody or for settlement of trades. For cancellation, HDR certificates can be physically withdrawn from CCASS and surrendered to the issuing depositary for cancellation.

MB Chapter 19B

FAQ 17 What services do the depositary and nominee provide under the HDR framework?

The deposit agreement stipulates the services which the depositary shall provide to the HDR holders. For HDRs held within CCASS, HKSCC supports the depositary by providing nominee services in relation to the corporate actions or activities affecting HDRs as well as arranging for the distribution of copies of relevant corporate communications to the CCASS participants concerned.

MB Chapter 19B

FAQ 18 Whether the depositary or custodian of HDR is subject to the disclosure regime (Part XV of the SFO)?

It depends on the facts of each depositary's or custodian's business as to whether they fall within the exemption or not (in particular section 323 of the SFO). The SFC has issued guidelines on disclosure of interests. In particular, in paragraph 2.12.13.2:

"2.12.13.2 If a bank retains a discretionary right to set off any other obligations/ liabilities of a client against any securities held in custody for that client the bank will not satisfy the requirement in s.323(3)(b) that the corporation "has no authority to exercise discretion in dealing in the interest, or in exercising rights attached to the interest". Similarly, the exemption is not available if a bank retains the discretionary right to take up or retain unclaimed or fractional dividends (cash and/ or scrip). The custodian exemption is not establishing a new wide exemption for custodians. It is intended to parallel the regime for a "bare trustee" – simply extending the bare trustee exemption to custodians by contract (before the bare trustee exemption only applied to custodians who were trustees)."

The depositary or custodian should assess their own circumstances and ensure that laws and regulations are observed.

MB Chapter 19B

FAQ 19 What are the trading and settlement procedures for HDRs?

The trading and settlement arrangements remain the same as for shares. All Exchange Participants are eligible to trade HDRs and investors can trade HDRs through their usual stock accounts. The trading platform for stock trading, the Orion Trading Platform – Securities Market (OTP-C), is used for HDRs. Trades executed in the Exchange's trading system will be settled through CCASS operated by HKSCC on the second settlement day after trading (T+2). Upon settlement, investors' HDR holdings will be credited to or debited from their accounts with CCASS, or the CCASS accounts of their designated custodians or Exchange Participants.

MB Chapter 19B

FAQ 20 Is there fungibility between HDRs and the underlying shares?

Provided that there are no restrictions on the underlying shares, they should be fungible with HDRs. If the underlying shares are listed on an overseas market, arbitrage between the two markets can take place.

Where an investor or intermediary believes that the price of the HDRs is higher (taking account of the HDR ratio) than the price of the underlying shares, it may wish to acquire shares in the overseas market, submit them to the custodian and take delivery of HDRs in the Hong Kong

market to sell and make a profit. Where the price of the HDRs is lower than that of the underlying shares, the investor/intermediary may submit the HDRs to the depositary for cancellation and take delivery of shares in the overseas market to sell and make a profit. Fees will be payable to the depositary on issuance and cancellation of the HDRs.

The arbitrage process tends to bring the respective prices of HDRs and the underlying shares into line, subject to the HDR ratio.

MB Chapter 19B

FAQ 21 Can HDRs be sold short?

HDRs are subject to the existing rules on short selling. Where the HDR issuer meets the Exchange's criteria and is placed on the list of eligible stocks, short selling in the normal manner will be permitted.

MB Chapter 19B

FAQ 22 Will the trading of HDRs be suspended to keep in line with the suspension of underlying shares in the local market?

As a practical matter, a suspension of the underlying shares of HDRs in the local market will normally, though not necessarily, result in a suspension of trading of HDRs on the Exchange. The trading suspension and resumption of HDRs on the Exchange will be in accordance with the MB Rules (e.g. whether the HDR issuer is able to keep the Hong Kong market informed of the development in the HDR issuer's activities). Similar to issuers with their equity securities listed on the Exchange, the lack of an announcement in some situations may lead to concerns of creating a false market in Hong Kong and hence would require a temporary suspension of dealings in the HDRs, pending an appropriate announcement to be made.

MB Chapter 19B

FAQ 23 How will international securities identification numbers ("ISIN") be allocated to HDRs?

International standard ISO 6166 provides a uniform structure for a number, the ISIN, that is a unique identifier of securities. National numbering agencies ("**NNA**") are responsible for issuing the ISIN in their respective countries. In the case of depositary receipts, such as HDRs, the relevant country is that of the entity which issued the depositary receipt, i.e. the depositary bank, rather than that of the issuer of the underlying shares. As such, if the HDRs are issued by a depositary bank which is incorporated or established outside Hong Kong, the ISINs of each class of HDR is assigned by the respective NNA of its country of incorporation.

MB Chapter 19B

Annex B.10 Sponsor's Independence, Expert Engagement and CMI Appointment

Introduction

The SFC published the "Consultation Paper on (i) the Proposed Code of Conduct on Bookbuilding and Placing Activities in Equity Capital Market and Debt Capital Market Transactions and (ii) the 'Sponsor Coupling' Proposal" ("**Consultation Paper**") on 8 February 2021, whereby the SFC proposed the new Code of Conduct provisions in relation to the conduct of intermediaries involved in bookbuilding and placing activities. The consultation conclusions ("**Consultation Conclusions**") were published on 29 October 2021. The new Code of Conduct provisions and consequential changes to the Listing Rules came into effect on 5 August 2022.

The Listing Rules define, among other things, the types of intermediaries involved in IPOs and other offerings of equity securities or interests (as provided in Note 1 to MB Rule 3A.32) covered under the Code of Conduct, and specify their responsibilities in these transactions in accordance with the Code of Conduct. Parts A and B provide an overview of the composition of the syndicate structure in a typical IPO in Hong Kong and a quick reference to the applicable Listing Rules for these defined intermediaries, respectively. Part C sets out the FAQs that are designed to help applicants and issuers to understand and comply with the Listing Rules.

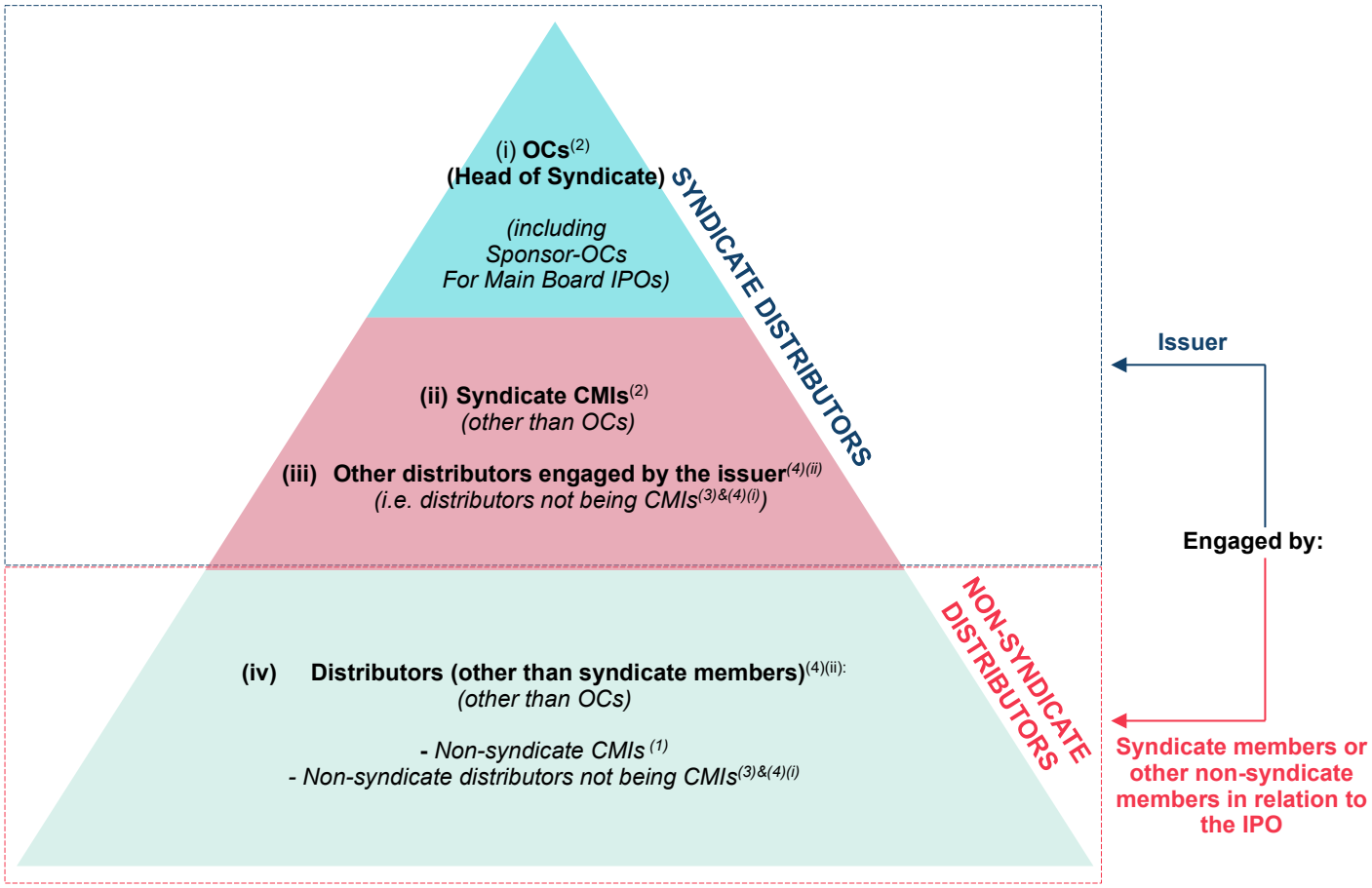


A. Overview of the composition of the syndicate structure in a typical IPO in Hong Kong

The composition of the syndicate structure in a typical IPO includes (i) **syndicate members;** and (ii) where engaged, **distributors (other than syndicate members)**. Whether an entity is considered as a syndicate member in an IPO under the Listing Rules depends on whether it is engaged by the issuer to conduct bookbuilding, placing and/or other related activities ("**Relevant Activities**") in the IPO. The diagram below shows the intermediaries involved in a typical IPO:

(i) Syndicate members, which comprise syndicate CMIs and other distributors (i.e. distributors not licensed or registered under the SFO) **engaged by the issuer** to conduct the Relevant Activities in the IPO; and

(ii) Non-syndicate distributors that are **engaged by entities other than the issuer** (e.g. syndicate members or other non-syndicate members) to conduct the Relevant Activities in the IPO (e.g. sub-distribution of the issuer's shares).



Notes:

1. A CMI is any corporation or authorised financial institution, licensed or registered under the SFO that engages in the Relevant Activities as referred to in paragraph 21.1.1 of the Code of Conduct.
2. A syndicate CMI is a CMI that is engaged by an issuer to conduct Relevant Activities. An OC is a syndicate CMI and includes a sponsor-OC.
3. Distributors (that are not CMIs) are distributors not licensed or registered under the SFO, which engage in the Relevant Activities for the IPO outside Hong Kong.
4. In the context of the Listing Rules, a "distributor" means any distributor conducting a placing of equity securities or interests referred to in MB Rule 3A.32(1) (GEM Rule 6A.39(1)). Whether a distributor is considered as:

(i) A CMI depends on whether it is licensed or registered under the SFO; and
(ii) A syndicate member depends on whether it is engaged by the issuer to conduct the Relevant Activities in the relevant placing, and "syndicate distributor" in this Annex shall be construed accordingly.

B. Quick reference to the applicable Listing Rules for defined intermediaries

Syndicate CMI

The provisions in the Listing Rules that are relevant to a syndicate CMI include:

MB Rules	GEM Rules	Summary	Applies to placings in connection with New Listings only
1.01	1.01	Definition of a CMI	
3A.33	6A.40	Appointment before a CMI conducts any Relevant Activities under paragraph 21.1.1 of the Code of Conduct	
3A.34	6A.41	Terms of the written engagement agreement of a CMI	
3A.46	6A.48	Obligations of an applicant and its directors to assist the syndicate members	✓
9.11(35), Form D (published in Regulatory Forms)	12.26(6), Form D (published in Regulatory Forms)	Submission of (i) separate Marketing and Independence Statements in the form of Form D (published in Regulatory Forms) on FINI; and (ii) a placee list to the Exchange, on FINI, as soon as practicable after the issue of the listing document but before dealings commence	✓
9.23(2), Form D (published in Regulatory Forms)	12.27(6), Form D (published in Regulatory Forms)	Same requirement as that in MB Rule 9.11(35) (GEM Rule 12.26(6)), but applies to placings of equity securities or interests of a class new to listing under MB Rule 3A.32(1)(a)(ii) (GEM Rule 6A.39(1)(a)(ii)) only	
12.04(5)	16.09(5)	Disclosure of the names of all syndicate CMIs and any other syndicate members in the formal notice in the case of a placing	
Note 2 to 12.08	Note 3 to 16.13	Confirmation required to be included in the announcement of the results of the offer	✓
13.28(10)	17.30(10)	Disclosure of the names of syndicate members and principal terms of the underwriting/placing arrangements in a placing. This applies to placings of equity securities or interests of a class already listed under a general or specific mandate under MB Rule 3A.32(1)(a)(ii) (GEM Rule 6A.39(1)(a)(ii)) and placings of listed equity securities or interests by an existing holder of equity securities or interests if it is accompanied by a top-up subscription under MB Rule 3A.32(1)(b) (GEM Rule 6A.39(1)(b)) only	
Paragraphs 3 and 3B of Appendix	Paragraphs 3 and 3B of Appendix	Disclosure of (i) the name and address of each syndicate member and (ii) the aggregate of the fees and the ratio of fixed and discretionary fees paid or payable to all syndicate	✓

D1A, Paragraphs 3 and 3B of Appendix D1E	**D1A**	members in the listing document	
Paragraph 13 of Form F (published in Regulatory Forms)	**Paragraph 13 of Form F (published in Regulatory Forms)**	Confirmation of determination of the allocation of discretionary fees to be paid, and the time schedule for the payment of the total fees payable, to each syndicate CMI in the issuer's declaration	✓
Note 1 to 12.08A, Paragraphs 1A, 1C, 8, 10 and 11 of Appendix F1	**10.12(1A), 10.12(1AA), Note 1 to 10.12(4), 10.12(4A), 10.12(5), 10.12(6)**	Requirements relating to, and restrictions on, placing activities	

OC

An OC is a syndicate CMI. See subsection "Syndicate CMI" above for the provisions in the Listing Rules that are relevant to a syndicate CMI. Other requirements relating to an OC under the Listing Rules include:

MB Rules	GEM Rules	Summary	Applies to placings in connection with New Listings only
1.01	**1.01**	Definition of an OC	
3A.30	**6A.30**	Action required if licence or registration is revoked, suspended, varied or restricted	
3A.35	**6A.42**	Appointment before an OC conducts any Relevant Activities under paragraph 21.2.3 of the Code of Conduct	
3A.36	**6A.43**	Terms of the written engagement agreement of an OC	
3A.37, Practice Note 22	**6A.44, Practice Note 5**	Deadline for appointment of an OC (other than a sponsor-OC in the case of MB applicants, as set out in MB Rule 3A.43 referred to in subsection "Sponsor-OC" below) in the case of a New Listing (i.e. no later than 2 weeks following the submission of the listing application), and publication of an OC Announcement on an appointment of an OC	✓
3A.38	**Note to 6A.42**	Provision of information by OC	
3A.39	**Note to 6A.42**	Additional OCs	
3A.40, 9.11(36), Form E (published in Regulatory Forms),	**6A.45, 10.12 to 10.16B, 12.26(8), Form E (published in Regulatory**	Submission of the OC's declaration in the form of Form E (published in Regulatory Forms) on FINI, pursuant to which each OC is required to declare, among others, that the placing is in compliance with MB Appendix F1 (GEM Rules 10.12 to 10.16B).	✓

Appendix F1	**Forms)**		
3A.41, 3A.42, Practice Note 22	**6A.46, 6A.47, Practice Note 5**	Termination of the OC's role (other than for a sponsor-OC, as set out in MB Rule 3A.45 referred to in subsection "Sponsor-OC" below), and publication of an OC Announcement on a termination of the engagement of an OC in the case of a New Listing	✓ *(obligation to publish OC Announcement only)*
9.10B	**Note 3 to 12.08**	Documents required to be submitted where there is a change of OC	✓
9.11A	**12.26AA**	Obligation to notify the Exchange where there are any material changes to the information previously provided to the Exchange under MB Rule 9.11 (GEM Rules 12.12 to 12.26)	✓
-	**12.23AA**	Submission of certain information to the Exchange at least four clear business days prior to listing hearing. This applies to placings in connection with GEM New Listings under GEM Rule 6A.39(1)(a)(i) only	✓ *(GEM New Listings only)*
Paragraph 4.3 of Practice Note 18	**Paragraph 5 of Practice Note 6**	Obligation to restrict the extent of any over-allocation of shares to the limit provided under the over-allotment option	✓
Paragraphs 3 and 19 of Appendix F1	**10.12(1B), 10.16B**	Obligation to make adequate distribution facilities available, run application list and determine a fair basis for allocation when the issue is oversubscribed; obligation to inform the Exchange where decisions made by an issuer amount to non-compliance with the Listing Rules related to, among other things, the placing activities conducted	

Sponsor-OC

A sponsor-OC is also an OC. See subsection "OC" above for the provisions in the Listing Rules that are relevant to an OC. Other requirements relating to a sponsor-OC under the Listing Rules (which are only applicable to MB applicants and do not apply to GEM applicants) include:

MB Rules	Summary	Applies to placings in connection with New Listings only
1.01	Definition of a sponsor-OC	✓
Note to 3A.02	Obligations of a sponsor before accepting an appointment by an applicant as a sponsor	✓
3A.43	Appointment (i.e. at least 2 months before the submission of the listing application and both appointment of the sponsor independent of the applicant and the OC must be made at the same time)	✓
3A.44	Additional sponsor-OCs	✓
3A.45	Termination of the sponsor-OC's role	✓
3A.36(4), 9.11(23a)	Submission of certain information to the Exchange at least four clear business days prior to listing hearing	✓

WYBOTICS EX1041
Wybotics v. Zodiac
Page 492

Syndicate and non-syndicate distributors

(i) The following provisions in the Listing Rules are relevant to both (a) syndicate distributors (other than syndicate CMIs); and (b) non-syndicate distributors engaged to conduct the Relevant Activities in a placing of equity securities or interests referred to in MB Rule 3A.32(1) (GEM Rule 6A.39(1)):

MB Rules	GEM Rules	Summary	Applies to placings in connection with New Listings only
3A.46	**6A.48**	Obligations of an applicant and its directors to assist the syndicate members	✓
9.11(35), Form D (published in Regulatory Forms)	**12.26(6), Form D (published in Regulatory Forms)**	Submission of (i) separate Marketing and Independence Statements in the form of Form D (published in Regulatory Forms) on FINI; and (ii) a placee list to the Exchange, on FINI, as soon as practicable after the issue of the listing document but before dealings commence	✓
9.23(2), Form D (published in Regulatory Forms)	**12.27(6), Form D (published in Regulatory Forms)**	Same requirement as that in MB Rule 9.11(35) (GEM Rule 12.26(6)), but applies to placings of equity securities or interests of a class new to listing under MB Rule 3A.32(1)(a)(ii) (GEM Rule 6A.39(1)(a)(ii)) only	
Note 1 to 12.08A, Paragraphs 1A, 1C, 8, 10 and 11 of Appendix F1	**10.12(1A), 10.12(1AA), Note 1 to 10.12(4), 10.12(4A), 10.12(5), 10.12(6)**	Requirements relating to and restrictions on placing activities	

Notes:

1. Non-syndicate distributors engaged by entities other than the issuer are "distributors (other than syndicate members)" referred to in MB Rules 3A.46(3), 9.11(35)(a) and 9.23(2)(a), Note 1(f) to 12.08A, MB Form D and paragraphs 1A, 1C(1), 8 and 10 of MB Appendix F1 (GEM Rules 6A.48(3), 10.12(1A), 10.12(1AA)(a), Note 1(g) to 10.12(4), 10.12(4A), 10.12(6), 12.26(6)(a), 12.27(6)(a) and GEM Form D).
2. In respect of a transaction covered under the Listing Rules, distributors (including both syndicate distributors and non-syndicate distributors) that are not CMIs are expected to assist the OCs to discharge their obligations under the Listing Rules ("**Required Assistance**").
3. To facilitate the OCs' discharge of their obligations under the Listing Rules (e.g. providing a declaration (in the form of Form E (published in Regulatory Forms)) to the Exchange that, among others, a bookbuilding was carried out to assess demand for securities and the relevant placing is in compliance with MB Appendix F1 (GEM Rules 10.12 to 10.16B)), issuers are expected to include the following terms ("**Assistance Terms**") in the written engagement of each syndicate distributor:
   (i) The obligation of the syndicate distributor to provide the Required Assistance to the OC(s); and
   (ii) The obligation of the syndicate distributor to require any distributor it engages for the relevant transaction ("**Second Tier Distributor(s)**") to provide the Required Assistance to the OC(s) and to assist the syndicate distributor to provide the Required Assistance to the OC(s), including but not limited to requiring the Assistance Terms to be reflected in the written engagement of each Second Tier Distributor and any distributor that each Second Tier Distributor further engages for the relevant transaction.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 493

(ii) In addition to the provisions in the Listing Rules set out in sub-paragraph (i) above, the following provisions in the Listing Rules are also relevant to syndicate distributors (other than syndicate CMIs) engaged to conduct the Relevant Activities in a placing of equity securities or interests referred to in MB Rule 3A.32(1) (GEM Rule 6A.39(1)):

MB Rules	GEM Rules	Summary	Applies to placings in connection with New Listings only
1.01	**1.01**	Definition of a syndicate member	
12.04(5)	**16.09(5)**	Disclosure of the names of all syndicate CMIs and any other syndicate members in the formal notice in the case of a placing	
Note 2 to 12.08	**Note 3 to 16.13**	Confirmation required to be included in the announcement of the results of the offer	✓
13.28(10)	**17.30(10)**	Disclosure of the names of syndicate members and principal terms of the underwriting/placing arrangements in a placing. This applies to placings of equity securities or interests of a class already listed under a general or specific mandate under MB Rule 3A.32(1)(a)(ii) (GEM Rule 6A.39(1)(a)(ii)) and placings of listed equity securities or interests by an existing holder of equity securities or interests if it is accompanied by a top-up subscription under MB Rule 3A.32(1)(b) (GEM Rule 6A.39(1)(b)) only	
Paragraphs 3 & 3B of Appendix D1A , Paragraphs 3 & 3B of Appendix D1E	**Paragraphs 3 & 3B of Appendix D1A**	Disclosure of (i) the name and address of each syndicate member; and (ii) the aggregate of the fees and the ratio of fixed and discretionary fees paid or payable to all syndicate members in the listing document	✓

Notes:

1. "New Listings" shall have the meaning as defined in MB Rule 1.01 (GEM Rule 1.01) in the Listing Rules and "placings in connection with New Listings" shall mean placings referred to in MB Rule 3A.32(1)(a)(i) (GEM Rule 6A.39(1)(a)(i)) in the Listing Rules.
2. The table above only sets out the provisions in the Listing Rules that are relevant to the above intermediaries involved in the Relevant Activities. Intermediaries shall continue to observe other requirements that are applicable to them under the Listing Rules.
3. Pursuant to MB Rule 20.23A in the Listing Rules, in the case of offerings involving bookbuilding activities (as defined under the Code of Conduct) of interests in a REIT by a new REIT applicant or an existing authorised REIT, MB Chapter 3A and other relevant Listing Rule relating to sponsor-OC, OC and other CMI shall apply.

C. FAQs relating to CMI Appointment

FAQ 1 **Despite the introduction of new definitions on the role of intermediaries under the Listing Rules, can intermediaries still be awarded titles such as "global coordinator", "bookrunner", "lead manager", etc. which are currently the market norm, and disclosed accordingly in listing documents?**

Yes, intermediaries may still be awarded titles which are currently used in the market and identified by these titles in the listing documents to be issued in connection with the relevant transactions. The definitions of CMI, OC and sponsor-OC are for the purpose of identifying them based on the Relevant Activities they engage in as stipulated in the Code of Conduct. However, as the definitions under the Code of Conduct relate directly to the Relevant Activities performed, intermediaries should approach with caution on awarded titles that appear to be inconsistent with how their roles are defined under the Code of Conduct.

MB Rule 1.01
GEM Rule 1.01

FAQ 2 **What are the types of equity capital market transactions that require the appointment of a CMI to be made under a written engagement agreement before it conducts any of the Relevant Activities?**

An issuer is required to appoint a CMI by way of a written engagement agreement before such CMI conducts any Relevant Activities under MB Rule 3A.32 (GEM Rule 6A.39) (Notes 1, 2 and 3).

An issuer is not under the above obligations in respect of offerings of equity securities or interests which do not involve bookbuilding activities (as defined under the Code of Conduct), such as:

(i) Transactions as specified in Note (2) to MB Rule 3A.32(2) (Note to GEM Rule 6A.39(2));

(ii) Selling of listed equity securities or interests by existing holders of equity securities or interests, other than a placing as referred to in MB Rule 3A.32(1)(b) (GEM Rule 6A.39(1)(b)) (sometimes referred to as "secondary offering"); and

(iii) An offering of equity securities or interests which has been subscribed by an intermediary as principal deploying its own balance sheet, for onward selling to investors (sometimes referred to as "block transactions").

For the avoidance of doubt, if an equity offering involving bookbuilding or placing activities (as defined in the Code of Conduct) uses a back stop arrangement (where the CMI provides a guarantee or an underwriting commitment at a minimum price to the issuer), the CMI in this connection should be appointed under a written engagement agreement before it conducts the

WYBOTICS EX1041
Wybotics v. Zodiac
Page 495

Relevant Activities for such transaction under MB Rule 3A.33 (GEM Rule 6A.40), even if the CMI may have a right to acquire the equity securities or interests offered as principal under the relevant backstop/underwriting agreement, given that it is uncertain whether any equity securities or interests would be acquired by the CMI as principal by deploying its own balance sheet, for onward selling to investors.

Notes:

1. The scope of offerings to which the Listing Rules apply is the same as that set out in paragraph 21.1.2(a) of the Code of Conduct.
2. If a CMI does not perform, and is not and will not be appointed to perform, the Relevant Activities in an offering set out in MB Rule 3A.32(1) (GEM Rule 6A.39(1)), the requirement under MB Rule 3A.33 (GEM Rule 6A.40) will not apply to that CMI.
3. Placing and bookbuilding activities (as defined under the Code of Conduct) do not include market sounding that is conducted to gauge investors' interest before an issuer has decided to pursue an offering. As the timing at which an issuer makes a decision to pursue an offering is solely within its knowledge and control, the issuer is expected to communicate its decision promptly to any CMI it has authorised to conduct market sounding and to appoint the CMI under a written engagement agreement before it conducts the Relevant Activities in accordance with MB Rule 3A.33 (GEM Rule 6A.40).

MB Rules 3A.32, 3A.33, 3A.35
GEM Rules 6A.39, 6A.40, 6A.42

FAQ 3 Are there any amendments to the Listing Rules relating to debt capital market ("DCM") transactions?

No, intermediaries engaged in DCM transactions are however reminded to abide by applicable standards of conduct in the Code of Conduct.

For the avoidance of doubt, offerings of equity linked convertible or exchangeable bonds where the bookbuilding or placing activities are conducted in Hong Kong would fall under the scope of DCM activities.

FAQ 4 Can the designated sponsor under MB Rule 3A.10(1) (GEM Rule 6A.10(1)) and the designated sponsor-OC under MB Rule 3A.44 (the designated OC under GEM Rule 6A.42) be two different intermediaries (not within the same group of companies)?

Yes, they could be two different intermediaries (not within the same group of companies).

MB Rules 3A.10(1), 3A.44
GEM Rules 6A.10(1), 6A.42

WYBOTICS EX1041
Wybotics v. Zodiac
Page 496

FAQ 5 **A MB applicant has appointed Entity A to be sponsor to its IPO. If the applicant subsequently appoints Entity A (or one of its group companies) as an OC before the expiration of the 2-week period following the submission of its listing application, can Entity A (or its relevant group company) be regarded as a sponsor-OC?**

In the scenario described, while Entity A (or its relevant group company) would be acting as a sponsor and an OC for the IPO, it would not be a sponsor-OC under MB Rule 3A.43. In order to become a sponsor-OC for the purpose of MB Rule 3A.43, Entity A and/or its group company must be appointed as sponsor and OC at the same time and the appointment must be made at least 2 months before the submission of the listing application.

MB Rules 3A.02, 3A.35, 3A.43

FAQ 6 **Can a MB applicant contemplating a New Listing on the Exchange which does not fall within the Code of Conduct on Relevant Activities (e.g. listing by introduction or an offer by public subscription only) appoint a sponsor-OC in accordance with the MB Rules to prevent the 2-month waiting period in case the MB applicant subsequently decides during the listing process to conduct an IPO which will involve a placing tranche instead?**

Yes, in this scenario, the MB applicant can appoint a sponsor-OC (or other OCs) when it is considering a listing on the Exchange, irrespective of whether the Code of Conduct apply to the initial proposed method of listing. It can rely on the sponsor-OC appointed to provide advice on the merits of, and the need to adopt, a placing tranche, depending on market conditions and the applicant's preference for its future shareholder base.

If an applicant initially planned to list by way of introduction or by public offering only and has not appointed any sponsor-OC no later than 2 months before the submission of its listing application, when it subsequently decides to include a placing tranche in its IPO after the submission, it will have to re-file the listing application at least 2 months after the appointment of a sponsor-OC if it intends to continue with the listing application process.

MB Rules 3A.02, 3A.43

WYBOTICS EX1041
Wybotics v. Zodiac
Page 497

FAQ 7

An applicant intends to have 3 OCs for its IPO and has appointed them in accordance with the Listing Rules. If one of the appointed OCs resigns after the 2-week period following the submission of its listing application, can the applicant appoint another OC to replace the outgoing OC?

In the case of a placing in connection with a New Listing, all OCs must be appointed no later than 2 weeks following the date of the submission (or re-filing) of the listing application.

In this scenario, following the resignation of the outgoing OC, the applicant can no longer appoint another OC due to the expiry of the 2-week period and may only proceed with its existing listing application with the remaining 2 OCs for its IPO. The applicant may however appoint additional syndicate CMIs (other than OCs) to assist with the selling effort of its IPO.

If the existing listing application lapses subsequently, the applicant may consider appointing a new OC to replace the outgoing OC before the end of the 2-week period following the re-filing of its listing application.

MB Rules 3A.37, 3A.42, paragraph 17A of Practice Note 22
GEM Rules 6A.44, 6A.47, paragraph 16A of Practice Note 5

FAQ 8

In each of the scenarios below (assuming in each scenario, each sponsor-OC and sponsor was duly appointed 2 months before the submission of its listing application), how would a MB applicant's listing application be affected if a sponsor-OC resigns after the submission of its listing application:

(i) One sponsor-OC;
(ii) One sponsor-OC and one sponsor; and
(iii) Two sponsor-OCs

In scenarios (i) and (ii), if the MB applicant intends to continue with the listing process, it must file a new listing application with the Exchange not less than 2 months from the date of the formal appointment of a replacement sponsor-OC, detailing a revised listing timetable together with the initial listing fee. In the event of a termination of the engagement of an OC, the MB applicant and the outgoing OC must also notify the Exchange in writing, as soon as practicable, of the termination of the engagement of the outgoing OC together with (a) the reasons therefor; and (b) a confirmation on whether it had any disagreement with the MB applicant.

In scenario (iii), the MB applicant may proceed with its existing listing application provided that the remaining sponsor-OC remains duly appointed.

MB Rules 3A.41(1), 3A.43, 3A.45

WYBOTICS EX1041
Wybotics v. Zodiac
Page 498

FAQ 9

Is every sponsor-OC (or one of the companies within its group of companies) also required to be appointed as an independent sponsor, or would it be sufficient for the purpose of MB Rule 3A.43 where at least one sponsor-OC (or one of the companies within its group of companies) has been appointed as an independent sponsor?

All criteria in MB Rule 3A.43 (including the sponsor independence requirement) must be fulfilled for an OC to qualify as a sponsor-OC. This means that each sponsor-OC must either be an independent sponsor or a company within the same group of companies as an independent sponsor.

A CMI cannot be appointed as a sponsor-OC if it is neither a sponsor independent from the issuer nor any company within the group of companies of an independent sponsor.

MB Rule 3A.43

FAQ 10

Under the Note to MB Rule 3A.02, a sponsor should, before accepting an appointment by an applicant as sponsor, (a) be independent of the applicant and ensure that it (or one of the companies within its group of companies) is appointed at the same time as an OC in accordance with MB Rule 3A.43; or (b) obtain a written confirmation from the applicant that at least one sponsor-OC has been appointed in accordance with MB Rule 3A.43.

Does this mean, under the Listing Rules, a sponsor-OC (or a company within its group of companies that is proposed to be appointed as sponsor, where applicable) will be required to complete its independence check and confirm its independence from the applicant before accepting its appointment as sponsor, unless another sponsor-OC (or a company within its group of companies that is appointed as sponsor, where applicable) had done so?

A sponsor must provide an undertaking and statement of independence to the Exchange at the time of A1 submission, and the confirmation of independence is done subject to the outcome of the due diligence exercise to be performed by the sponsor in connection with the listing application. We do not expect the current practice to change in regards to the independence confirmation of sponsors. So if a sponsor (or a company within its group of companies) accepts an appointment by an applicant as a sponsor-OC under MB Rule 3A.43 on a preliminary basis subject to completion of the due diligence check, in the event the sponsor is concluded to be not independent of the applicant, another independent sponsor (or a company within its group of companies) will need to be appointed as a sponsor-OC in accordance with MB Rule 3A.43.

MB Rules 3A.02, 3A.43

WYBOTICS EX1041
Wybotics v. Zodiac
Page 499

FAQ 11 Does the requirement under MB Rule 3A.43(2) that a sponsor-OC must be appointed no less than 2 months before the submission (or re-filing, as the case may be) of a listing application apply in the case of a SPAC New Listing?

For a placing involving bookbuilding activities (as defined under the Code of Conduct) in connection with the New Listing of a SPAC, the Exchange would accept the submission (or re-filing, as the case may be) of the listing application where the sponsor-OC is appointed no less than 1 month (instead of 2 months as required under MB Rule 3A.43(2)) prior to the submission (or re-filing, as the case may be). This means that the listing application for the New Listing of the SPAC must be submitted no less than 1 month after the date of the formal appointment of the sole sponsor-OC or (where more than 1 sponsor-OC is appointed) the last sponsor-OC, which is in line with the modification of the timing requirement on appointment of sponsors for SPAC listing applications under MB Rule 18B.78.

MB Rule 3A.43

FAQ 12 Can an applicant identify and appoint a sponsor-OC no less than 2 months before the submission (or re-filing) of a listing application for the purpose of MB Rule 3A.43(2), whereas the fee arrangement (required to be included in the written engagement agreement under MB Rules 3A.35 and 3A.36) could be determined and agreed between the sponsor-OC and the applicant after the appointment but no later than 2 weeks after the submission (or re-filing) of the listing application?

No, this interpretation is inconsistent with the Listing Rules. MB Rule 3A.43(2) requires a sponsor-OC and the affiliated sponsor (either the same firm or its group company) to be appointed as such at the same time and no less than 2 months before the submission (or re-filing) of the listing application. Under MB Rule 3A.35, the aforementioned appointment of sponsor-OC shall be made under a written engagement agreement, which must at least specify, among others, the fee arrangements as required under MB Rule 3A.36(2).

MB Rules 3A.35, 3A.36, 3A.43

FAQ 13 Is the requirement under MB Rule 3A.43 considered to have been satisfied if the sponsor-OCs jointly signed the written engagement agreement, whilst each sponsor-OC enters into separate fee letters with the applicant at the same time as the execution of the written engagement agreement due to confidentiality?

Yes.

MB Rule 3A.43

WYBOTICS EX1041
Wybotics v. Zodiac
Page 500

FAQ 14 Is the written engagement agreement of a syndicate CMI (including a sponsor-OC or any other OC) required to be submitted to the Exchange?

The written engagement agreement should only be submitted when requested by the Exchange.

Where a written engagement agreement (including any supplemental engagement agreement) is submitted to the Exchange voluntarily, it is at the discretion of the Exchange or the SFC whether to review it or express any comment on its compliance with the Listing Rules or the Code of Conduct, and where no comment on the written engagement agreement is raised, this should not be taken as an indication of compliance with the Listing Rules or the Code of Conduct, and should not prevent the Exchange or the SFC from raising comments afterwards.

MB Rules 3A.33, 3A.34, 3A.35, 3A.36, 3A.43;
GEM Rules 6A.40, 6A.41, 6A.42, 6A.43

FAQ 15 How should the fixed fees payable to a CMI be presented in the written engagement agreement?

The written engagement agreement must at least specify the fixed fees payable to the relevant CMI as a percentage ("**fixed fees percentage**") of the total fees (including both fixed fees and discretionary fees) to be paid to all syndicate CMIs ("**Total Fees**") (Notes 1, 2 and 3). This will enable each syndicate CMI to know its fixed fees entitlement relative to the Total Fees, which is expected to enable syndicate CMIs to focus their efforts and devote their resources to providing advice to the issuer, conducting bookbuilding and placing activities in compliance with the Code of Conduct, as the case may be, and, in turn, enhance the transparency and credibility of the price discovery and allocation process. Alternatively, it is also acceptable for the written engagement agreement to contain sufficient information for the fixed fees percentage to be calculated. For example, if the written engagement agreement contains the fixed fees payable to the relevant CMI and the Total Fees, then the fixed fees percentage does not need to be specifically calculated in the written engagement agreement.

As specified in Appendix D to the Consultation Conclusions, "before the issuer could decide on the fixed fees to be paid to any syndicate CMI, the issuer would need to decide (i) its Total Fees; and (ii) the fee split ratio". In order for the issuer to decide how much fixed fees each syndicate CMI is entitled to and determine the fixed fees percentage of each syndicate CMI to be specified in its written engagement agreement, the issuer must have decided, at the time of engagement of the first syndicate CMI, the Total Fees, the total fixed fees payable to all syndicate CMIs and the total discretionary fees (if any) that may be paid to all syndicate CMIs (e.g. each as a percentage of the gross proceeds to be raised in the offering). The issuer is expected to maintain proper documentation of the calculation of the fixed fees percentage required to be specified under MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43).

To classify a fee payable to a CMI (including an OC) as a "fixed" fee specified in the written engagement agreement under MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43), the general principles are as follows:

WYBOTICS EX1041
Wybotics v. Zodiac
Page 501

(i) Assessment is made with respect to each CMI that is engaged pursuant to the written engagement agreement. Therefore, the written engagement agreement should enable the CMI to ascertain the minimum amount of fees payable to it which is not subject to the discretion of the issuer (other than because of changes in the offer price or total offer size) ("**fixed fees**");

(ii) For a fee to be regarded as "fixed fees" for MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43), both the fee entitlement and the identity of the payee CMI (including an OC) must be indicated in its written engagement agreement; and

(iii) "Discretionary fees" are any fees other than fixed fees.

The interpretation of a fee as "fixed" or "discretionary" for the purpose of MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43) might not necessarily be the same as the legal nature of the fee from the perspective of the issuer (e.g. under contract law).

For example, if a written engagement agreement specifies a contracted obligation to pay a fee of 3% of the gross proceeds from the offering to all OCs where the actual allocation to each OC is to be determined at an issuer's discretion, the fee is not a "fixed fees" from the perspective of each OC for MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43) (Note 4), but the total amount of such fees payable to all OCs remains the issuer's contractual obligation and any disclosure on such fee in the listing document should reflect this nature.

Additionally, the written engagement agreement of the CMI may set out additional formulations of the fixed fees payable to it depending on the commercial negotiation and preferences of the parties involved. For example, in addition to providing information on the fixed fees percentage in its mandate, a CMI may agree with the issuer to also specify its fixed fees as an absolute cash amount, or as a percentage of the gross proceeds to be raised in the offering of equity securities or interests.

Where the fixed fees entitlement expressed in an engagement may be increased subject to the discretion of the issuer (other than due to changes in the overall offer size or offer price), the discretionary portion of the fees will be regarded as a discretionary fee for the purpose of the Listing Rules. This is further elaborated in FAQ No. 16 below.

Notes:

1. "Total fees" referred to in MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43) are commonly referred to as "underwriting fees", and shall comprise all fixed and discretionary fees to be paid in connection with all activities falling within the scope of the Code of Conduct.

2. If the issuer has determined at the time of the engagement of the first syndicate CMI that no discretionary fees will be paid to any of its syndicate CMIs, a CMI's fixed fees percentage to be specified in its written engagement agreement shall be calculated and presented on such basis (i.e. the Total Fees, being the denominator in the formula for calculating the CMI's fixed fees percentage, will not include any discretionary fees), provided that such basis and any relevant assumptions for the calculation are clearly set out in the CMI's written engagement agreement.

3. Where, for example, (i) it is specified in a CMI's written engagement agreement that the total fixed fees and the total discretionary fee payable to all syndicate CMIs are 3% and 1% of the gross proceeds to be raised in the offering, respectively and (ii) it is agreed that the CMI shall be entitled to 50% of the total fixed fees payable to all syndicate CMIs, it may be specified in the CMI's written engagement agreement for the purpose of MB Rule 3A.34/3A.36 (GEM Rule 6A.41/6A.43) that its fixed fees percentage is 37.5% of the Total Fees assuming that the discretionary fee is paid in full.

4. For the avoidance of doubt, where it is specified in an OC's written engagement agreement that a fixed percentage of the Total Fees must be paid by the issuer to the OCs as incentive fee, but the precise allocation of such fee to each OC is at the sole discretion of the issuer to be exercised at a later stage, such fee would be regarded for the purpose of MB Rules 3A.34 and 3A.36 (GEM Rules 6A.41 and 6A.43) as a discretionary fee. See also FAQ Nos. 16 to 21 below.

MB Rules 3A.34, 3A.36
GEM Rules 6A.41, 6A.43

FAQ 16

(i) Can the fixed fees required to be specified in the written engagement agreement of a CMI (including an OC) under MB Rule 3A.34(2) (GEM Rule 6A.41(2)) (for a syndicate CMI) or MB Rule 3A.36(2) (GEM Rule 6A.43(2)) (for an OC) be expressed in the form of (i) "no less than" or "no more than" a percentage of the Total Fees; or (ii) a percentage range of the Total Fees (e.g. between [x]% and [y]% of the Total Fees)?

(ii) Would the answer in (a) be different for any discretionary fee specified in the written engagement agreement of a syndicate CMI or an OC?

(i) (a) "**no less than [x]%**" of the Total Fees: The fixed fees of the CMI would be regarded as [x]% at the time of its engagement, whereas any fees above [x]% would be regarded as discretionary fees.

(b) "**no more than [x]%**" of the Total Fees: There is no certainty as to the minimum amount of fee that the CMI may get after rendering the specified services and all that fee is accordingly, discretionary. This does not meet the requirements of MB Rule 3A.34(2)/3A.36(2) (GEM Rule 6A.43(2)/6A.41(2)).

(c) **a percentage range of the Total Fees**: The minimum fee prescribed by the range would be regarded as the fixed fees of the CMI, while any additional fees within the range would be regarded as its discretionary fees. Similarly, for a tiered commission structure where a higher commission rate will apply when the deal is priced higher, the minimum fee prescribed by such structure would be regarded as the fixed fees of the CMI, whereas any fees above that minimum fee would be regarded as its discretionary fees. Such fee arrangement should be clearly disclosed in the listing document.

Under paragraph 21.4.2(b)(i) of the Code of Conduct, OCs are required to inform the issuer on market practices for the fee split ratio, which is stated to be around 75% fixed and 25% discretionary ("**75:25 ratio**") in the Consultation Conclusions, and issuers should assess whether they should deviate significantly from the 75:25 ratio. See FAQ No. 24 for requirement in Application Proof, and FAQ No. 22 for requirement under MB Rule 9.11(23a)(iv) to notify the Exchange four clear business days prior to the date of the expected LC hearing. Regulators may make enquiries where the ratio submitted significantly deviates from the 75:25 ratio.

WYBOTICS EX1041
Wybotics v. Zodiac
Page 503

(ii) The Listing Rules do not prevent the discretionary fee entitlement of a CMI from being presented in its written engagement agreement in any of the forms referred to in sub-paragraphs (i)(a), (b) and (c) of this FAQ above.

However, it should be noted that the time schedule for payment of the fee to a CMI, which is required to be specified in its written engagement agreement under MB Rule 3A.34(3) (GEM Rule 6A.41(3)) (for a syndicate CMI) or MB Rule 3A.36(3) (GEM Rule 6A.43(3)) (for an OC), is required to cover fixed fees and any discretionary fees. This means that if the applicant has decided at the time of the engagement of the relevant CMI that a discretionary fee may be paid to that CMI, its written engagement agreement is required to specify the timing of payment of such discretionary fee.

MB Rules 3A.33, 3A.34, 3A.35, 3A.36, 3A.37, 3A.43
GEM Rules 6A.40, 6A.41, 6A.42, 6A.43, 6A.44

FAQ 17

An applicant intends to appoint an OC ("OC A") before filing its listing application, and to appoint further syndicate CMIs closer to the date of the hearing of its listing application. The initial written engagement agreement of OC A specified that OC A is entitled to a fixed fees of 60% of the Total Fees, so that the applicant could allocate the remaining 40% of the Total Fees to the remaining syndicate CMIs to be appointed at a later stage.

(i) If fewer syndicate CMIs are eventually appointed than initially budgeted, could additional fixed fees be subsequently allocated to OC A?
(ii) Could the written engagement agreement of OC A include a re-allocation mechanism to reduce its fixed fees entitlement subsequently if more syndicate CMIs are eventually appointed?

(i) If OC A's written engagement agreement specifies that it is entitled to a fixed fees of 60% of the Total Fees, this would comply with the relevant Listing Rule requirements. If the remaining 40% is not allocated to any CMI, or is allocated to OC A in future at the discretion of the issuer, such fee would be regarded as discretionary fee for the purpose of the Listing Rules.

(ii) No, given that the re-allocation mechanism would result in an unquantified subsequent reduction of OC A's fixed fees entitlement if more syndicate CMIs than initially budgeted are appointed at a later stage, the fee percentage of the OC A and the extent of the subsequent reduction are unclear at the time of its engagement, and there is no certainty as to the minimum amount of fixed fees that OC A may get after rendering the specified services.

As the deadline for appointing OCs is earlier than that for appointing other syndicate CMIs ("**non-OC CMIs**"), in light of the positions set out in (i) and (ii) above, issuers are reminded to make their best estimate as to the number of non-OC CMIs to be appointed when they communicate to an OC at the time of entering into its written engagement agreement how much of the Total Fees will be awarded to it as its fixed fees.

MB Rule 3A.36
GEM Rule 6A.43

FAQ 18 Is it permissible under the Listing Rules for the fixed fees specified in the written engagement agreement of a CMI (including an OC) to be subsequently amended, for example by way of a supplemental agreement? Are these changes required to be notified to the Exchange?

Where any change proposed to the original fee structure may potentially result in the contravention of the Listing Rules/the Code of Conduct, regulators shall be consulted as early as possible and before the changes are made.

For any material change to previously submitted information on fee arrangements of syndicate CMIs (including OCs), including the following, the Exchange should also be notified and be provided with the updated information and the reasons for such change as soon as practicable under MB Rule 9.11A (GEM Rule 12.26AA):

- The aggregate of the fees and the ratio of fixed and discretionary fees paid or payable to all syndicate members required to be included in the AP submitted for vetting purposes under paragraph 3B of MB Appendix D1A/D1E (paragraph 3B of GEM Appendix D1A), in cases where the relevant fees have already been determined (see paragraph 9 of **Chapter 6.2** of the Guide). See also FAQ No. 24 below; and

- Information including, among others, the allocation of the fixed portion of the fees paid by the issuer to each OC and the ratio of fixed and discretionary fees to be paid to all syndicate CMIs required to be submitted by no later than four clear business days prior to the LC hearing under MB Rule 9.11(23a) (GEM Rule 12.23AA). See also FAQ No. 22 below.

In addition, regulators may request supporting documents at any time during the listing application process in order to assess whether the fee arrangement of any syndicate CMI or any change to the terms of its engagement complies with the applicable Listing Rule/Code of Conduct requirements.

Where the regulators become aware that a material change has been made to the fee arrangement, the regulators will assess such change on a case-by-case basis having regard to the scale of, and the reasons for, the change. Depending on the circumstances of the case, the regulators might make enquiries to assess whether the original incentive arrangements for the CMIs involved have been fundamentally changed (e.g. the fixed fees entitlement to some existing OCs is reduced significantly to the effect that a significant percentage of the fee pool is now allocated to a few CMIs appointed at a very late stage) and hence whether such change should be treated as constituting a new engagement. Examples of situations where subsequent material adjustments to fees may be regarded as justifiable include (a) resignation of an OC which necessitates a re-allocation of fees and (b) a significant reduction in offer size, which results in a commercial negotiation of revised fee arrangements.

OCs should document in writing the reasons for any changes to the fee arrangements in their internal records.

MB Rule 3A.34, 3A.36, Note 2 to 9.11(23a), 9.11A, paragraph 3B of Appendix D1A, paragraph 3B of Appendix D1E
GEM Rule 6A.41, 6A.43, Note 2 to 12.23AA, 12.26AA, paragraph 3B of Appendix D1A

WYBOTICS EX1041
Wybotics v. Zodiac
Page 505

FAQ 19

Where there is a material change to the terms of the engagement of an OC, will the date of the change be regarded as the date of its appointment for the purpose of MB Rules 3A.35 and 3A.37 (GEM Rules 6A.42 and 6A.44) (for an OC (other than a sponsor-OC in a Main Board transaction)), or MB Rule 3A.43(2) (for a sponsor-OC in a Main Board transaction)?

If the material change is treated as a new engagement, the date of such change will be regarded as the date of appointment of the OC for the relevant Listing Rules, subject to the terms of the new engagement complying with the relevant MB Rules.

If the material change results in, among other things, the requirements under MB Rule 3A.37/3A.43 (GEM Rule 6A.44) not being complied with, the applicant may be required to delay its listing timetable until the relevant requirements have been re-complied with.

As set out in FAQ No. 18 above, where the regulators become aware that a material change has been made to the fee arrangement of an OC, they might make enquiries to assess, among others, whether the material change should be treated as constituting a new engagement.

MB Rules 3A.33, 3A.34, 3A.35, 3A.36, 3A.37, 3A.43
GEM Rules 6A.40, 6A.41, 6A.42, 6A.43, 6A.44

FAQ 20

(i) Where an applicant engages more than one sponsor-OC through a joint engagement agreement (the "First Written Agreement"), whether specifying a joint fee arrangement (including the aggregate fixed fees to be paid to all the appointed joint sponsor-OCs but without specifying the fee split between or among them) in the joint engagement agreement would be sufficient to satisfy the requirements under MB Rule 3A.36(2) (GEM Rule 6A.43(2))?

(ii) If the answer to (a) is no, and the same parties enter into a supplemental engagement agreement to clarify the fee split among such joint sponsor-OCs, whether the Exchange will regard the date of the First Written Agreement as the date of appointment of the joint sponsor-OCs for the purpose of calculating the 2-month period required under MB Rule 3A.43(2)?

(i) No. Under MB Rule 3A.36(2) (GEM Rule 6A.43(2)), the fixed fees to be paid to each OC as a percentage of the Total Fees should be specified in the joint engagement agreement. See also FAQ Nos. 15 and 16 above.

(ii) The 2-month period required under MB Rule 3A.43(2) shall commence on the date when the sponsor-OC is appointed in strict compliance with the Listing Rules, which is, in this scenario, the date of the latest supplemental engagement agreement.

MB Rules 3A.43, 3A.36
GEM Rule 6A.43

WYBOTICS EX1041
Wybotics v. Zodiac
Page 506

FAQ 21

Could a syndicate CMI (or OC) whose fixed fees entitlement was not presented in compliance with MB Rule 3A.34/3A.36 (GEM Rule 6A.41/6A.43) (see FAQ Nos. 15 and 16 above for details) enter into a supplemental written engagement agreement with the applicant to re-comply with the relevant Listing Rule requirements?

In that case, would the date of engagement of the relevant syndicate CMI (or OC) be taken as the date of the initial written engagement agreement or that of the supplemental written engagement agreement for the purpose of determining compliance with the relevant timing requirement under the Listing Rules (e.g. the 2-week deadline under MB Rule 3A.37 (GEM Rule 6A.44) for OCs (other than sponsor-OCs) or the 2-month deadline under MB Rule 3A.43 (for sponsor-OCs))?

If the fixed fees entitlement of a syndicate CMI (including an OC) was not presented as an acceptable fixed fees formulation in accordance with the responses to FAQ Nos. 15 or 16 above, the CMI will not be considered as having been appointed in compliance with the Listing Rules. The applicant can enter into a supplemental engagement with the CMI to comply with the relevant Listing Rules. The appointment of the CMI for the purpose of the Listing Rules will only be regarded as having commenced on the date when the CMI is appointed in strict compliance with the Listing Rules, i.e. the date of the supplemental engagement. For example, where the CMI in the scenario described is a sponsor-OC, the 2-month period required under MB Rule 3A.43(2) shall only be regarded as having commenced on the date of the supplemental engagement.

MB Rules 3A.33, 3A.34, 3A.35, 3A.36, 3A.37, 3A.43
GEM Rules 6A.40, 6A.41, 6A.42, 6A.43, 6A.44

WYBOTICS EX1041
Wybotics v. Zodiac
Page 507

FAQ 22 How should the information required to be submitted to the Exchange under MB Rule 9.11(23a)(ii), (iii) and (iv) (GEM Rule 12.23AA(ii), (iii) and (iv)) be presented?

MB Rule 9.11(23a)(ii) (GEM Rule 12.23AA(ii)) – confirmation of the "fixed fees to be paid by the issuer for each OC"

The Exchange would expect this to include (i) the fixed fees and the discretionary fees to which each OC is entitled as a percentage of the Total Fees (Notes 1 and 3) and (ii) the fixed fees as a percentage of the offer size for all OCs (which is consistent with the presentation of the Total Fees as a percentage of the gross proceeds to be raised from the New Listing in respect of both the public subscription and the placing tranches as required under MB Rule 9.11(23a)(iii) (GEM Rule 12.23AA(iii))).

MB Rule 9.11(23a)(iii) (GEM Rule 12.23AA(iii)) – confirmation of the "Total Fees (as a percentage of the gross proceeds to be raised from the New Listing) in respect of both the public subscription and the placing tranches to be paid to all syndicate CMIs"

The Exchange would expect this to include the percentage calculated on the basis that the over-allotment option (if any) is (i) not exercised; and (ii) exercised in full (Note 1). To the extent there are any other arrangements (e.g. offer size adjustment option) that would affect the offering structure and thereby impact the gross proceeds to be raised from the New Listing, the Exchange would expect the percentage calculated to have taken into account such other arrangements.

MB Rule 9.11(23a)(iv) (GEM Rule 12.23AA(iv)) – confirmation of the "ratio of fixed and discretionary fees to be paid to all syndicate CMIs for both the public subscription and the placing tranches (in percentage terms)"

The Exchange would expect this to include (i) the total fixed fees (as a percentage (Note 2) of the Total Fees) paid or to be paid to all syndicate CMIs for both the public subscription and the placing tranches (Notes 1 and 3); and (ii) the total discretionary fees (as a percentage (Note 2) of the Total Fees) paid or to be paid to all syndicate CMIs for both the public subscription and the placing tranches (Notes 1 and 4).

Notes:

1. If any information required to be submitted under MB Rule 9.11(23a) (GEM Rule 12.23AA) is calculated and/or presented on the basis that the discretionary fees (if any) will be fully paid, such basis should be clearly stated in the submission.

2. Both the percentage calculated on the basis that the over-allotment option (if any) is (a) not exercised; and (b) exercised in full shall be submitted.

3. The fixed fees percentages shall be expressed in compliance with FAQ Nos. 15 and 16 above.

4. For the avoidance of doubt, the payment of discretionary fees (if any) to any syndicate member is at the absolute discretion of the issuer and therefore it would be acceptable for the discretionary fee percentages to be subject to language such as "up to" or "no less than" a particular percentage.

MB Rule 9.11(23a)
GEM Rule 12.23AA

WYBOTICS EX1041
Wybotics v. Zodiac
Page 508

FAQ 23 **Under the Listing Rules, the fixed fees payable to syndicate CMIs shall be determined at the time of their respective appointments by the issuer. What is the position on discretionary fees payable to syndicate CMIs? When is the latest time by which the total discretionary fees which may be paid to syndicate CMIs and the allocation of discretionary fees to each syndicate CMI (including an OC), if any, must be determined by the issuer?**

Total discretionary fees to syndicate CMIs:

At the time of engagement of the first syndicate CMI, an issuer should consider the total amount of discretionary fees that it might, at its discretion, pay to syndicate CMIs, for the purpose of arriving at the Total Fees to be paid to syndicate CMIs in the determination of the fixed fees percentage of each syndicate CMI to be specified in its written engagement agreement. See also FAQ No. 15 above.

Allocation of discretionary fees to each syndicate CMI:

An applicant is required to have determined the allocation of discretionary fees to **each syndicate CMI (including each OC)** by the time it submits its Issuer's Declaration (Form F (published in Regulatory Forms) to the Listing Rules), that is after the issue of the listing document but in any event before the grant of the final listing approval. Specifically, the Issuer's Declaration includes a confirmation that, among other things, the following has been determined and communicated in writing to each syndicate CMI at the time of the declaration:

(i) The absolute amount of discretionary fees to be paid to each syndicate CMI (Note 1); and

(ii) The time schedule for the payment (Note 1) of the Total Fees (see Note 1 to FAQ No. 15 above) payable to each syndicate CMI has been determined (See FAQ No. 16(b) above).

For the avoidance of doubt, information on the discretionary fee which may be payable to **each** OC/other syndicate CMI is not required to be submitted until at least 4 clear business days before the expected hearing date under MB Rule 9.11(23a) (GEM Rule 12.23AA). See also FAQ No. 22 above.

Note:

1. The issuer may not make payment of any portion of the Total Fees subject to a condition to be satisfied following listing. The exception to this is fees in relation to the New Listing of a SPAC if, in accordance with a common market practice, the syndicate members are to be paid a portion of their fees at the time of the New Listing of the SPAC, and the remaining portion is to be paid on a deferred basis only following successful de-SPAC. For the avoidance of doubt, the Listing Rules are not applicable to the fees that are payable to a SPAC promoter for its services in relation to the New Listing of the SPAC or the de-SPAC transaction provided that the services do not fall within the scope of Relevant Activities.

MB Rules 9.11(23a), 9.11(37), paragraph 10A of Form F (published in Regulatory Forms)
GEM Rules 12.23AA, 12.26(7), paragraph 10A of Form F (published in Regulatory Forms)

FAQ 24 Is the AP submitted at the time of the filing of the listing application required to fulfil the disclosure requirements under paragraph 3B of MB Appendix D1A/D1E (paragraph 3B of GEM Appendix D1A) (i.e. (1) the aggregate of the fees paid or payable to all syndicate members (as a percentage of the gross amount of funds proposed to be raised) and (2) the ratio of fixed and discretionary fees paid or payable to all syndicate members)?

As the AP submitted for vetting purposes should be substantially complete (except for offer-related information and information that by its nature can only be finalised and incorporated at a later date under MB Rule 9.03(3) (GEM Rule 12.09(1))) (see paragraph 9 of **Chapter 6.2** of the Guide), it shall include information required to be disclosed under paragraph 3B of MB Appendix D1A/D1E (paragraph 3B of GEM Appendix D1A) in cases where the relevant fees have already been determined. However, such information must be redacted from the publication version of the AP given the fees are expressed as a percentage of the gross proceeds.

If any information required to be disclosed in the prospectus under relevant rules is calculated and/or presented on the basis that the discretionary fees (if any) will be fully paid, such basis should also be clearly disclosed.

MB Rules 9.03, paragraph 3B of Appendix D1A, paragraph 3B of Appendix D1E
GEM Rules 12.09, paragraph 3B of Appendix D1A

FAQ 25 What information in relation to fee arrangements does an issuer need to provide to CMIs involved in the Relevant Activities in the issuer's proposed placing?

The issuer shall provide the following:

(i) At the time of engagement of a CMI by the issuer, the issuer must specify, among others, the following in the CMI's written engagement agreement:

  (a) The fee arrangement (including the CMI's fixed fees percentage); and

  (b) The time schedule for payment of the fees (including fixed and discretionary fee (if any)) to the CMI; and

(ii) Before commencement of dealings in the equity securities or interests to be placed in the transaction, the issuer must determine and communicate in writing to the syndicate CMI the absolute amount of discretionary fees to be paid (Note 1), and the time schedule for the payment (Note 1) of the total fees payable, to the syndicate CMI.

Note:

1. See Note 2 of FAQ No. 16(b) and Note 1 to FAQ No. 23 above.

MB Rule 3A.34, paragraph 10A of Form F (published in Regulatory Forms)
GEM Rule 6A.41, paragraph 10A of Form F (published Regulatory Forms)

FAQ 26 What needs to be disclosed in the prospectus on fees payable to syndicate members in placings in connection with New Listings? For example, are the fee splits amongst the CMIs (or OCs) required to be disclosed in the prospectus?

In respect of a placing in connection with a New Listing, the prospectus shall at least disclose (i) the aggregate sum of the fees (as a percentage of the gross proceeds from the New Listing before and after over-allotment) paid or payable to all syndicate members in respect of both the public subscription and the placing tranches; and (ii) the ratio of fixed and discretionary fees paid or payable to all syndicate members (Note 1). The absolute amount of the fees paid or payable to, and the fee split among each syndicate member are not required to be disclosed in the prospectus.

Based on the specific circumstances of each listing application, the Exchange may require further information to be disclosed if it considers that such disclosure will enable potential investors to make an informed assessment of the applicant or the New Listing.

Note:

1. For this purpose, the following shall be disclosed: (a) the total fixed fees and (b) the total discretionary fees, as a percentage of the Total Fees before and after over-allotment, paid or to be paid to all syndicate members for both the public subscription and the placing tranches. The fixed fees percentages shall comply with FAQ Nos. 15 and 16 above. The payment of discretionary fees (if any) to any syndicate member is at the absolute discretion of the issuer and therefore it would be acceptable for the percentages to be subject to language such as "up to" or "no less than" a particular percentage.

Paragraph 3B of MB Appendix D1A and paragraph 3B of MB Appendix D1E
Paragraph 3B of GEM Appendix D1A

FAQ 27 Under the Listing Rules, an applicant and its directors shall provide each syndicate member with a list of the directors and existing shareholders of the applicant, their respective close associates and any person who is engaged by or will act as a nominee for any of the foregoing persons to subscribe for, or purchase shares in connection with a New Listing ("Restricted Investors").

(i) Does this requirement apply to applicants with a primary listing on an overseas exchange given they may have a large shareholder base and the compilation of the list of Restricted Investors may be cumbersome?

(ii) Does the requirement apply to a placing of shares by a listed issuer that falls under MB Rules 3A.32(1)(a)(ii) or 3A.32(1)(b) (GEM Rules 6A.39(1)(a)(ii) or 6A.39(1)(b))?

(i) In the case of a placing in connection with a New Listing, the Listing Rules prohibit Restricted Investors from subscribing for the equity securities or interests of an applicant unless with consent from the Exchange. The provision of the required information set out in MB Rule 3A.46 (GEM Rule 6A.48) is to assist the syndicate members to identify such Restricted Investors.

An applicant seeking a secondary listing or a dual primary listing with an offering on the Exchange has the same obligation under MB Rule 3A.46 (GEM Rule 6A.48) to assist their syndicate members to meet their general obligation to take all reasonable steps to identify Restricted Investors.

Under the current practice, given there may be material changes in the Restricted Investors during the listing process of an applicant seeking a secondary listing or a dual primary listing on the Exchange, it may apply for the Exchange's consent under paragraphs 1C(1) and (2) of MB Appendix F1 (GEM Rules 10.12(1AA)(a) and (b)) and a waiver of MB Rule 10.04 (GEM Rule 13.02(1)) in order to allow certain existing shareholders of the applicant to subscribe for equity securities or interests in its IPO.

Paragraph 12 of **Chapter 4.15** of the Guide provides that the Exchange will consider giving the above consent and granting the above waiver 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 for example, where all the conditions set out in paragraph 13 of **Chapter 4.15** of the Guide are fulfilled, the Exchange may consider that the actual or perceived preferential treatment given to the relevant 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 shareholders or their close associates.

(ii) No, this requirement only applies to a placing in connection with a New Listing. However, listed issuers should comply with the requirement of the Listing Rules in connection with the placing of (a) equity securities or interests of a class new to listing or of a class already listed under a general or specific mandate or (b) listed equity securities or interests (if it is accompanied by a top-up subscription) to any "connected person" as defined in MB Chapter 14A/GEM Chapter 20. For example, a listed issuer may provide information to assist the syndicate members to identify the listed issuer's connected persons.

MB Chapter 14A, MB Rules 3A.32, 3A.46, 10.04, MB Appendix F1
GEM Chapter 20, GEM Rules 6A.39, 6A.48, 10.12, 13.02

FAQ 28 When does an applicant need to publish an OC Announcement (as defined in MB Rule 1.01 (GEM Rule 1.01)) and what is the content requirement of such announcement?

The requirement to publish an OC Announcement only applies to a placing involving bookbuilding activities in connection with a New Listing (under MB Rule 3A.32(1)(a)(i) (GEM Rule 6A.39(1)(a)(i))).

The timing for publishing an OC Announcement is stated under paragraph 7 of **Chapter 6.4** of the Guide.

For the avoidance of doubt:

(i) In the case of a listing of interests in a REIT, the timing for publishing an OC Announcement shall be on the same date as it files an authorisation application with the SFC and publishes the AP; and

(ii) While intermediaries appointed may be awarded titles such as "global coordinator", "bookrunner", "lead manager", etc., if they fall within the definition of "OC" under the Listing Rules by virtue of the activities they conduct or are engaged to conduct, each OC Announcement shall clearly identify them as "OC", in addition to any other titles of these intermediaries which the applicant may intend to disclose in the OC Announcement.

Note: The requirement to publish an OC Announcement also applies to a re-filing of a listing application.

MB Rules 1.01, 2.07C(6)(a), 3A.32, 3A.37, 3A.41(2), 9.08(2), 12.01C, Practice Note 22
GEM Rules 1.01, 16.19(1), 6A.39, 6A.44, 6A.46(2), 12.10(2), 16.01C, Practice Note 5

FAQ 29 What should an applicant do if it failed to publish an OC Announcement at the prescribed timing under the Listing Rules?

The applicant shall publish the OC Announcement as soon as practicable and clearly state the following in the announcement:

(i) When the OC Announcement should have been published under the Listing Rules;

(ii) The reasons for the delay in publication; and

(iii) That the Exchange may take action in respect of the applicant's listing application on the breach of the relevant Listing Rules.

MB Rules 2.07C(6)(a), 3A.37, 3A.41(2), 9.08(2), 12.01C, Practice Note 22
GEM Rules 16.19(1), 6A.44, 6A.46(2), 12.10(2), 16.01C, Practice Note 5

FAQ 30 Does an applicant need to publish an OC Announcement on an appointment or termination of an OC that takes place before the submission of its listing application?

No, the obligation to publish an OC Announcement arises only when an applicant submits a listing application. See FAQ No. 28 above.

However, the applicant is required to notify the Exchange in writing, as soon as practicable, of a termination of an OC that takes place before the submission of the listing application, and provide the information required under MB Rule 3A.41(1) (GEM Rule 6A.46(1)) to the Exchange.

MB Rules 2.07C(6)(a), 3A.37, 3A.41, 9.08(2), 12.01C, Practice Note 22
GEM Rules 16.19(1), 6A.44, 6A.46, 12.10(2), 16.01C, Practice Note 5

WYBOTICS EX1041
Wybotics v. Zodiac
Page 513

FAQ 31 Does a listed issuer need to publish an OC Announcement on an appointment or termination of an OC in relation to the placings other than in connection with a New Listing?

No, the requirement for publication of an OC Announcement only applies to an applicant effecting a placing involving bookbuilding activities (as defined in the Code of Conduct) in connection with a New Listing and does not apply to an offering by a listed issuer under MB Rules 3A.32(1)(a)(ii) or 3A.32(1)(b) (GEM Rules 6A.39(1)(a)(ii) or 6A.39(1)(b)).

However, in an offering by a listed issuer under MB Rules 3A.32(1)(a)(ii) or 3A.32(1)(b) (GEM Rules 6A.39(1)(a)(ii) or 6A.39(1)(b)), it is required to notify the Exchange of the termination of an OC in writing as soon as practicable under MB Rule 3A.41(1) (GEM Rule 6A.46(1)).

MB Rules 2.07C(6)(a), 3A.32, 3A.37, 3A.41, 9.08(2), 12.01C, Practice Note 22
GEM Rules 16.19(1), 6A.39, 6A.44, 6A.46, 12.10(2), 16.01C, Practice Note 5

FAQ 32 If market conditions deteriorate in the course of a secondary placing that falls within MB Rule 3A.32 (GEM Rule 6A.39), can the placing agents agree with the issuer to reduce their fees so that the net proceeds from the placing would not be substantially reduced despite that the placing shares are priced below the bottom end of the initial price range?

If a reduction of fee arrangement is permitted, must such reduction of fee arrangement be included in the written engagement agreement and if not, do the placing agents need to consult the regulators before changes are made to the fee structure?

What disclosure is required in the announcement on the secondary placing in respect of the placing agents' fees?

The Exchange understands that it is not a common market practice for placing agents to agree at the time of engagement that they shall reduce their fees in the event that the placing price is set below the indicative price range in a placing. However, in the event that such fee reduction arrangements have --been agreed at the time of the engagement, the arrangements should be reflected in the written engagement agreement.

The placing agents are not required to consult the regulators before changes are made to the fee structure given the tight timeline to complete a secondary placing.

The announcement on the secondary placing should disclose the final rate paid/payable to the placing agents (after discount) based on the placing price, which should have been determined by the time the relevant announcement is made. Where a placing agent agrees to waive part or all of the fee after the announcement, the issuer is normally expected to update the market on this subsequent fee waiver as a material change in information previously announced.

MB Rules 3A.32, 3A.34, 3A.36
GEM Rules 6A.39, 6A.41, 6A.43

FAQ 33 **(i) Where will OC Announcements be posted?**

(ii) Do OC Announcements need to be pre-vetted by the Exchange prior to publication?

(iii) What are the publication requirements for OC Announcements?

(i) The "New Listings" page of the HKEXnews website;

(ii) No; and

(iii) An applicant shall submit the OC Announcement through HKEx-ESS for publication on the Exchange's website, and is not required to publish the OC Announcement on its own website.

MB Rules 2.07C(6)(a), 3A.37, 3A.41, 9.08(2), 12.01C, Practice Note 22
GEM Rules 6A.44, 6A.46, 12.10(2), 16.01C, 16.19(1), Practice Note 5

Annex B.11 General Documentary Requirements

FAQ 1 What is the "date of the sponsor's formal appointment" under MB Rule 3A.02B(1) (GEM Rule 6A.02B(1))?

It shall be the later of:

(i) The date of engagement letter;

(ii) The effective date of the sponsor's appointment stated in the engagement letter; or

(iii) The date of notification to the Exchange (only if the sponsor fails to notify the Exchange within five business days from the date of engagement letter).

MB Rules 3A.02A(1), 3A.02B(1)
GEM Rules 6A.02A(1), 6A.02B(1)

FAQ 2 Does a sponsor need to inform the Exchange in writing when it ceases to act as the sponsor of an applicant as a result of termination/expiry of its engagement prior to the filing of a listing application or after the listing application lapses?

Yes. A sponsor should notify the Exchange in writing on termination of its engagement regardless of whether there is an active listing application.

MB Rule 3A.02A(2)
GEM Rule 6A.02A(2)

FAQ 3 Are listing applications in relation to spin-offs, dual listings, deemed new listings (reverse takeovers), or transfers from GEM to the Main Board required to comply with:

(i) The "substantially complete" requirement under MB Rule 9.03(3) (GEM 12.09(1)); and
(ii) The posting of APs under MB Rule 12.01A (GEM Rule 16.01A)?

Yes, save for applicants making confidential filings which are not subject to the requirements on posting of AP under MB Rule 12.01A (GEM Rule 16.01A).

MB Rules 9.03(3), 12.01A, paragraphs 18 and 19 to MB Practice Note 22
GEM Rules 12.09(1), 16.01A, paragraphs 17 and 18 to GEM Practice Note 5

FAQ 4 Is digital signature required for documents electronically submitted to the Exchange that require signature?

No, except for documents that are to be electronically submitted to the Exchange for the purpose of authorisation of prospectus registration under the C(WUMP)O.

MB Rules 1.02A, 2.07(3A)
GEM Rules 1.03A, 2.21

FAQ 5 What types of listing documents should be published solely in an electronic format?

All listing documents in respect of the following should be published solely in an electronic format:

(i) IPOs of equities, stapled securities, depositary receipts and collective investment schemes;

(ii) Public offerings of debt securities;

(iii) Listings by introduction; and

(iv) Transfers of listing from GEM to the Main Board.

MB Rules 12.11, 20.19A, 25.19A
GEM Rules 16.04C, 29.21A

FAQ 6 For how long should electronic listing documents be published on the Exchange's and issuer's websites?

There is no time limit. Electronic listing documents should remain online.

MB Rules 12.11, 20.19A, 25.19A
GEM Rules 16.04C, 29.21A

Hong Kong Exchanges
and Clearing Limited

8/F, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

hkexgroup.com | hkex.com.hk

info@hkex.com.hk
T +852 2522 1122
F +852 2295 3106