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Tricor operating companies that provide core services in China & Hong Kong:

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TECH news

Amendments to Hong Kong Listing Rules Relating to Capital Raisings by Listed Issuers

Tricor clients listed in Hong Kong are advised to take note of the following, as applicable.

On 4 May 2018, Hong Kong Exchanges and Clearing Limited ("HKEX") published its conclusions from responses to its Consultation Paper on Capital Raisings by Listed Issuers (the "Consultation Conclusions") and introduced the relevant Listing Rule amendments ("Rule Amendments"). Such Rule Amendments are aimed at restricting abusive practices relating to capital raisings by listed issuers and protecting minority shareholders' interests. They will become effective on 3 July 2018.

The major Rule Amendments include:

- **Relating to rights issues and open offers**

- Minority shareholders' approval will be required for all open offers unless the new shares are to be issued under the authority of a general mandate granted by the issuer's shareholders (*the current requirement of minority shareholders' approval for rights issues that would increase either the number of issued shares or the market capitalization of the issuer by more than 50% will remain unchanged*).
- Underwriting requirement will become optional (*currently, underwriting is mandatory*).
- If the issuer decides not to arrange underwriting for a rights issue or an open offer, that fact and other relevant information will need to be disclosed, including the minimum amount (if any) that must be raised in order for such rights issue or open offer to proceed etc.
- Where rights issues or open offers are underwritten,
 - (i) the underwriters should be persons licensed under the Securities and Futures Ordinance and independent from the issuers and their connected persons, or
 - (ii) the controlling or substantial shareholders of the issuer can act as underwriter, provided that the issuer makes available the compensatory arrangements for the disposal of unsubscribed shares and complies with the relevant connected transaction rules (*the current exemption from connected transaction rules for the underwriting of pre-emptive offers by connected persons will be removed*).
- Issuers will be required to make either excess application arrangements or compensatory arrangements for the disposal of unsubscribed shares (*these arrangements are currently optional*).
- Where excess application arrangements are made, issuers must disclose the basis of allotment of securities available for excess applications, and should take steps to identify the excess applications by the controlling shareholders and their associates and disregard any excess applications made by them in excess of the offer size minus their assured entitlements.

- Placing of warrants, options or similar rights to subscribe for (i) any new shares of the issuer or (ii) any securities convertible into new shares of the issuer, for cash consideration pursuant to a general mandate will be disallowed.
- The use of a general mandate for the placing of convertible securities for cash consideration will be restricted unless the initial conversion price is not lower than the benchmarked price (as defined in the Listing Rules) of the shares at the time of placing.

- Relating to highly dilutive capital raisings

- **Relating to disclosure of use of proceeds**

- Issuers may need to sort out the details of the use of proceeds from equity fundraisings for disclosure in their financial reports after the commencement of the relevant Rule Amendments, where applicable.*

- **Relating to subdivision of shares and bonus issue of shares**

- Issuers must not undertake a subdivision or bonus issue of shares if its share price adjusted for the subdivision or bonus issue is less than HK\$1, based on the lowest daily closing price of the shares during the 6-month period before the announcement of the subdivision or bonus issue.

This *TechNews* is not exhaustive and only highlights the major Rule Amendments. Please refer to HKEX's press release "Exchange Publishes Conclusions from its Consultation on Capital Raisings by Listed Issuers and Announces Changes to Listing Rules", the Consultation Conclusions and the relevant amendments to the Main Board Listing Rules and GEM Listing Rules on the HKEX website.

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