

Listings and takeovers

Listing regulatory structure

The SFC's joint consultation with Hong Kong Exchanges and Clearing Limited (HKEX) on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation ended on 18 November. We are working with HKEX to analyse market responses.

IPO applications

Under the dual filing regime, we received 38 listing applications via SEHK during the quarter, down 54.8% from 84 in the previous quarter and 20.8% from 48 in the same quarter last year. The number of listing applications in the nine months from April to December was up 12.9% compared to the same period in 2015.

During the quarter, four listing applications were returned and an eight-week moratorium¹ was imposed because the respective application proofs were not substantially complete.

Rights issues and open offers

Together with SEHK, we are closely monitoring rights issues and open offers which substantially dilute the interests of non-subscribing minority shareholders² and are reviewing the relevant Listing Rules. We are concerned that some corporate actions did not afford fair and equal treatment to all shareholders or cast doubt on whether the directors of the listed

companies complied with the requirement to act in the best interests of shareholders. In cases where the terms of the proposed offers were highly dilutive, or where issuers conducted fundraisings repeatedly over a relatively short period, we made enquiries to ascertain whether there has been a contravention of the Securities and Futures Ordinance (SFO).

Takeovers matters

In November, the Takeovers Executive³ publicly censured Zheng Dunmu, chairman and executive director of Changgang Dunxin, and imposed a 24-month cold shoulder order⁴ for breaching mandatory offer requirements under the Takeovers Code. Zheng failed to make a mandatory general offer when he acquired more than 2% of Changgang Dunxin increasing his stake from 46.18% to 50.16% in February 2015, depriving Changgang Dunxin's shareholders of the right to receive an offer as not all of them were given the opportunity to exit.

In December, we publicly criticised Southwest Securities International Investment Limited and related parties for acquiring shares in Southwest Securities International Securities Limited⁵ within six months after the close of an offer at above the offer price, in contravention of the Takeovers Code.

In the December issue of the *Takeovers Bulletin*, we published the Takeovers Team's new performance pledges in handling transactions and applications.

Listing applications and takeovers activities

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Listing applications filed under the dual filing regime	38	193	171	12.9
Takeovers and share buy-backs transactions	135	356	333	6.9

¹ The applicant can only submit a new listing application with a new application proof no less than eight weeks after the return.

² Rights issues are offers to existing shareholders to subscribe for new shares proportionate to their shareholdings. Open offers are similar to rights issues but the subscription rights are non-renounceable. The dilution impact of a rights issue or open offer is measured based on the offer ratio and the discount of the offer price to the share price prior to the announcement of the offer.

³ This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

⁴ A cold shoulder order is a sanction that prevents a person from trading in Hong Kong for a stated period.

⁵ Formerly known as Tanrich Financial Holdings Limited.

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Corporate regulation

During the quarter, we continued to conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. In 27 cases, we felt it appropriate to issue section 179⁶ directions to gather additional information. The underlying concerns were varied and included whether any information that may meet the tests for inside information had been disclosed in a timely manner.

As part of our initiative to enhance the quality of disclosures by listed companies and to improve corporate behaviour in general, we published the fourth issue of the *Corporate Regulation Newsletter*, which encouraged listed companies to provide more meaningful disclosures to the market and brought changes in accounting standards to their attention.

⁶ Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.