

Corporates

To safeguard the interests of investors, we oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, vetting of listing applications, disclosure requirements, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK). We also review listing and takeovers policies to promote the development of a fair and orderly securities market.

Listing regulation

In collaboration with SEHK, we regularly review listing policies to strengthen Hong Kong's position as an international financial centre.

Main Board profit requirement

In May 2021, SEHK published consultation conclusions on increasing the minimum profit requirement by 60% and amending the profit spread for new listings on the Main Board. The new profit thresholds took effect on 1 January 2022.

Listings of overseas issuers

SEHK published consultation conclusions in November 2021 on enhancements to the listing regime for overseas issuers. The reforms aim to broaden the type of companies eligible to secondary list in Hong Kong and maintain high standards of shareholder protection. The Listing Rules amendments took effect on 1 January 2022, except for those subject to transitional arrangements.

Special purpose acquisition companies (SPACs)¹

Working closely with us, SEHK formulated a SPAC framework which aims to provide appropriate investor protection along with the flexibility and incentives needed for the development of a high-quality SPAC market in Hong Kong. In September, SEHK launched a public consultation on proposals to introduce a listing regime for SPACs and issued the consultation conclusions paper in December 2021. Listing Rules amendments to implement the new regime took effect on 1 January 2022. As at 31 March 2022, 11 SPACs had filed listing applications and one was listed.

¹ A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

² In a de-SPAC transaction, the application of Rule 26.1 of the Takeovers Code, which would result in the owners of the de-SPAC target obtaining 30% or more of the voting rights in a successor company, should normally be waived.



Ms Megan Tang, Senior Director of Corporate Finance, at the SFC Regulatory Forum 2021

After discussing with the Takeovers and Mergers Panel, we introduced a new Practice Note 23 in December 2021 to provide guidance on the application process for waiving the application of Rule 26.1² of the Takeovers Code for de-SPAC transactions.

Misconduct related to new listings

In May 2021, we published a joint statement with SEHK on our efforts to combat misconduct and improper behaviour in new listings through heightened scrutiny of listing applications with red flags which indicate a lack of genuine investor interest. We shared our observations and regulatory concerns in the joint statement and identified features of problematic initial public offerings (IPOs) which may lead to enquiries by regulators (see sidebar on page 59).

SEHK's disciplinary powers

Following our recommendation, SEHK consulted on proposals to enhance its disciplinary powers and sanctions to enhance market quality and protect investors' interests. The consultation conclusions were published in May 2021. Effective July 2021, the new rules strengthened SEHK's ability to hold directors and other individuals accountable for misconduct and breaches of the Listing Rules.

Share schemes

Following the observations in our 2019 review of SEHK's listing function, SEHK reviewed the Listing Rules and consulted the market in October 2021 on proposals to improve the disclosure of share schemes and provide issuers with greater flexibility to grant share options and share awards whilst protecting shareholders from excessive dilution. The consultation period ended on 31 December 2021.

306
new listing applications

Review of SEHK's work

In December 2021, we published a report on our review of SEHK's performance in its regulation of listing matters during 2019 and 2020. The review covered SEHK's hearings for non-disciplinary matters under the new review regime, its monitoring of newly-listed issuers' disclosures of the use of IPO proceeds and its handling of reverse takeover transactions under the amended rule.

New listing applications

	2021/22	2020/21	2019/20
Listing applications received ^a	306	257	303
Listing applications lapsed/withdrawn/rejected during the year	187	121	172
Listing applications returned ^b	1	1	3
New listings ^c	83	148	182

a Including applications for transfer from GEM to the Main Board (2021/22: 3; 2020/21: 17; 2019/20: 29).

b Listing applications were returned by SEHK because the application proofs or related documents were not substantially complete. The listing applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

c Including successful transfers from GEM to the Main Board (2021/22: 3; 2020/21: 6; 2019/20: 16). The Hang Seng Index closed at 21,996 on 31 March 2022 (31 March 2021: 28,378; 31 March 2020: 23,603).

³ Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.

⁴ Chapter 19C sets out the additional requirements, modifications or exceptions for companies which have, or are seeking, a secondary listing.

IPO applications

We vet listing applications and make enquiries to determine whether an application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing of securities based on one or more of the grounds set out in section 6(2)³ of the SMLR.

During the year, we vetted 306 new listing applications, including 14 from companies with a weighted voting rights structure, 33 from pre-profit biotech companies and 11 SPACs. Three companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules⁴ and one SPAC listed on the Main Board during the year.

Exercising our powers under the SMLR, we issued one letter of mindedness to impose conditions on a listing application, in line with our approach set out in the May 2021 joint SFC-SEHK statement on IPO-related misconduct.

We issued requisition letters directly to seven listing applicants during the year (2020/21: 27). Amongst our concerns were the credibility of the sponsor's submission, the sufficiency of independent due diligence, the genuineness of the listing applicant's financial information and the accuracy and completeness of the information submitted.

As at 31 March 2022, three of these listing applicants had left our concerns unaddressed and not proceeded to listing, whilst four of these applicants' applications are still ongoing but they have yet to satisfactorily address our concerns.

Corporate conduct

As part of our front-loaded approach to preventing corporate misconduct, we conduct daily reviews of corporate announcements to identify red flags and

irregularities. During the year, we issued section 179⁵ directions to gather additional information in 53 cases and wrote to listed companies detailing our concerns in four cases where, for example, there were indications that a corporate action or transaction may be conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Tackling misconduct and improper behaviour in new listings

Our investigations identified suspected misconduct and improper behaviour in a number of recent new listings. In some cases, suspicious arrangements were made to artificially satisfy the initial listing requirements. For instance, shares were allocated to controlled places at an inflated IPO price to meet the minimum Main Board market capitalisation requirement of \$500 million.

Other questionable arrangements were apparently designed to enable market manipulation of the shares of listed companies at a later date, including through ramp and dump schemes. The SFC and SEHK are concerned that these issues may affect the quality and integrity of Hong Kong's capital market and its reputation as an international financial centre.

The May 2021 joint statement sets out the SFC and SEHK's general approach to issues noted in recent IPOs which suggested a lack of genuine investor interest and called into doubt the existence of an open, orderly and fair market. A number of red flags were identified, including:

- the market capitalisation upon listing barely meeting the minimum threshold of

\$500 million under the Main Board Listing Rules or \$150 million under the GEM Listing Rules;

- very high price-to-earnings ratios compared to listed peers;
- unusually high underwriting commissions or other listing expenses; and
- a high concentration of shareholding.

As part of our regulatory response to address improper behaviour related to new listings, problematic listing applications with red flags are now subject to heightened scrutiny. Where necessary, we and SEHK will use our regulatory powers^a to object to or reject an application, or impose conditions on the listing applicant. In addition, we will not hesitate to use our statutory powers, including our investigation powers, in relation to issuers, senior management, major shareholders and intermediaries suspected of misconduct.

Generally, we have seen a moderate decrease in listing applications with red flags since the issue of the joint statement and increase in the Main Board profit requirements. We work closely with SEHK to monitor new listing applications and address any improper behaviour.

^a For instance, the SFC may exercise its powers under the Securities and Futures Ordinance and the SMLR.

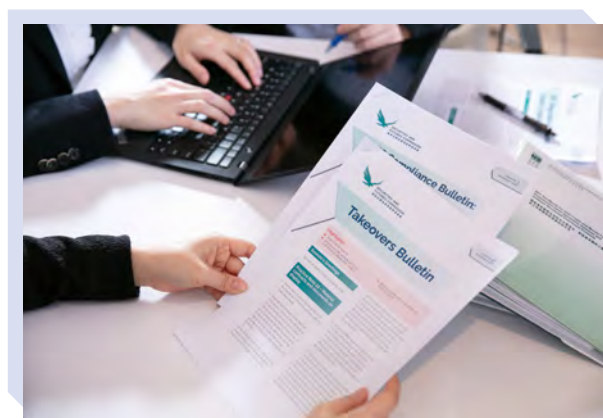
⁵ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Takeovers

Hong Kong’s takeovers market remained active during the ongoing pandemic. During the year, we maintained our performance pledges and remained committed to promoting a fair and orderly market for companies affected by takeovers, mergers and share buy-backs. Breaches of the Codes on Takeovers and Mergers and Share Buy-backs were a core focus of our investigation work. We will also engage the market to ensure that our regulation of takeovers activities in Hong Kong keeps up with changing circumstances.

In July 2021, we publicly censured BIT Mining Limited⁶ for breaching the rules on special deals when it issued new shares to its director and shareholder, Man San Law, who was also a shareholder of Loto Interactive Limited, during its general offer for Loto. The issue of shares to Law constituted special deals under the Takeovers Code and they were completed without the consent of the Takeovers Executive⁷.

In the same month, whilst handling a ruling application, we uncovered a breach by an executive director of Zhuguang Holdings Group Company, Chu Hing Tsung, in 2012 when he and his concert parties consolidated control in the controlling shareholder



of Zhuguang without making a general offer. This resulted in a public censure and a 12-month cold shoulder order against Chu.

In March 2022, we publicly censured Wonderful Sky Financial Group Holdings Limited and Liu Tianni and publicly criticised Liu Kiki Ching Tung. Wonderful Sky failed to obtain approval from the Takeovers Executive and its disinterested shareholders to buy back shares in a pre-arranged and pre-agreed block trade in March 2020, in breach of the Code on Share Buy-backs. Both Liu Tianni and Liu Kiki Ching Tung held senior positions in Wonderful Sky.

Takeovers activities

	2021/22	2020/21	2019/20
General and partial offers under Code on Takeovers and Mergers	45	38	41
Privatisations	21	31	15
Whitewash waiver applications	22	33	13
Other applications under Code on Takeovers and Mergers [^]	291	361	281
Off-market and general offer share buy-backs	5	5	7
Other applications under Code on Share Buy-backs [^]	1	1	2
Total	385	469	359

[^] Including stand-alone applications and those made during the course of a Code-related transaction.

Note: Also see Table 1 in Breakdown of SFC activity data on page 166 for more details.

⁶ Formerly known as 500.com Limited.

⁷ The Executive Director of the SFC’s Corporate Finance Division or its delegate.