

Corporates

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 review listing and takeovers policies from time to time to keep pace with market changes and facilitate the development of Hong Kong's securities market.

Listing policy

Emerging and innovative companies

Following our approval, SEHK implemented new Listing Rules on 30 April 2018 allowing pre-revenue biotech companies and innovative companies with weighted voting rights (WVR) structures to list in Hong Kong. During the year, we received listing applications from four WVR companies and 13 biotech companies. As at 31 March 2019, two WVR companies and seven biotech companies were listed in Hong Kong.

After the SFC and SEHK signed an addendum to the Memorandum of Understanding Governing Listing Matters in March 2018, a new Listing Policy Panel¹ was established as an advisory, consultative and steering body to discuss listing policy with broader regulatory or market implications. In September, the panel held its inaugural meeting and discussed a proposal to permit corporate WVR beneficiaries.

Review of SEHK's work

In a December report, we reviewed SEHK's performance in its regulation of listing matters during 2016 and 2017. Our review focused on the Listing Department's operational activities, processes and procedures, particularly SEHK's vetting of initial public offering (IPO) applications and suitability for listing, the regulation of reverse takeover transactions, the handling of disclaimer audit opinions and policy on listing enforcement. The report identified specific areas for SEHK to enhance its performance.

Review structure for Listing Committee decisions

Following discussions with us, SEHK issued conclusions to its consultation on the review structure for Listing Committee decisions in January 2019. To promote transparency and accountability in decision-making, significant Listing Committee decisions will be subject to one level of review. A new independent committee, the Listing Review Committee, will be established to replace the existing Listing (Review) Committee and Listing (Disciplinary Review) Committee, while the Listing Appeals Committee will be discontinued. All decisions on non-disciplinary matters made by the new Listing Review Committee will be published. The changes are expected to take effect in mid-2019.

Review of listing regulation

Together with SEHK, we regularly review the effectiveness of listing regulation to maintain market quality and address problematic listed company behaviour. Following a public consultation, SEHK introduced new rules governing capital raisings by listed companies as well as a new delisting framework. It also consulted the public on proposals relating to backdoor listings and continuing listing criteria and a proposal to introduce a suspension requirement for companies with disclaimer or adverse audit opinions on their financial statements.



Mr Brian Ho, Executive Director of Corporate Finance, at the 12th Annual Conference of the Hong Kong Investment Funds Association

¹ The Listing Policy Panel consists of 12 members comprising senior representatives of the SFC, the Listing Committee, Hong Kong Exchanges and Clearing Limited and the Takeovers and Mergers Panel.

IPO applications

We vet listing applications and raise 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)² of the SMLR.

We received 394 listing applications via SEHK during the year, up 28% from 309 last year, including four listing applications from WVR companies and 13 listing applications from biotech companies under the new listing regime for innovative companies. We shared our comments or concerns with SEHK where appropriate.

In line with our front-loaded regulatory approach, we directly sought information or expressed our



Our senior executives at a seminar hosted by the Hong Kong Securities and Investment Institute

New listing applications

	2018/19	2017/18	2016/17
Listing applications received ^a	394	309	245
Listing applications lapsed/withdrawn/rejected during the year	166	88	79
Listing applications returned ^b	0	3	5
New listings ^c	193	203	148

^a Including applications for transfer from GEM to the Main Board (2018/19: 16; 2017/18: 22; 2016/17: 18).

^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 not less than eight weeks after the return.

^c Including successful transfers from GEM to the Main Board (2018/19: 11; 2017/18: 17; 2016/17: 6).

² 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.

³ A "letter of mindedness" sets out our substantial concerns along with detailed reasons.

⁴ 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.

concerns in 17 listing applications where we became aware of potentially serious disclosure or public interest issues. In two of these applications, the applicants satisfactorily addressed our concerns and were subsequently listed. As at 31 March 2019, six applications had not proceeded to listing, leaving our concerns unaddressed, and in nine applications, the applicants had yet to satisfactorily address our concerns.

During the year, we issued a "letter of mindedness to object"³ directly in two listing applications. One listing applicant postponed its share offer and was subsequently listed after addressing our concerns.

Corporate conduct

To better identify potential misconduct and irregularities in disclosures, we conduct daily reviews of corporate announcements under statutory corporate conduct and inside information disclosure provisions. During the year, we issued section 179⁴ directions to gather additional information in 73 cases and wrote to listed companies to detail our concerns about 37 transactions. These concerns included, for example, whether a corporate action or transaction is being conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

SFC Regulatory Bulletin

During the year, we published the second and third issues of the *SFC Regulatory Bulletin: Listed Corporations* which used case studies to illustrate how we intervened at an early stage where we had serious concerns about IPO applications or corporate transactions.

Takeovers matters

In Hong Kong, takeovers, mergers, privatisations and share buy-backs affecting public companies are regulated by the Codes on Takeovers and Mergers and Share Buy-backs. These codes aim to afford equal treatment of shareholders and ensure a fair and informed market as well as to mandate disclosure of timely and adequate information to enable shareholders to make informed decisions.



Following a three-month consultation on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs, we released consultation conclusions in July and the amended codes took effect

on 13 July. Amendments included empowering the Takeovers and Mergers Panel to require compensation be paid to shareholders who have suffered as a result of a breach of these codes and increasing the threshold for independent shareholder approval for a whitewash waiver to 75%.

With effect from April 2018, a new Note was added to section 4.2 to the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs to align them with the new listing regime for companies from emerging and innovative sectors.

Investigations and enquiries remained an important focus of our regulatory functions. We sanctioned two parties during the year.

In June, we publicly censured and imposed a 24-month cold shoulder order against Chan Shing. He triggered a mandatory general offer obligation when he acquired shares of Burwill Holdings Limited on the market in April 2014, but he did not make an offer.

Liang Guosheng was publicly censured and given a 24-month cold shoulder order in July. Liang triggered a mandatory general offer obligation when he acquired shares of Silver Base Group Holdings Limited on the market in July 2017, but no offer was made.

Takeovers activities

	2018/19	2017/18	2016/17
General and partial offers under Code on Takeovers and Mergers	55	59	73
Privatisations	6	11	13
Whitewash waiver applications	21	41	37
Other applications under Code on Takeovers and Mergers [^]	275	289	365
Off-market and general offer share buy-backs	9	1	4
Other applications under Code on Share Buy-backs [^]	7	0	2
Total	373	401	494

[^] Including stand-alone applications and those made during the course of a Code-related transaction.
Note: Also see Table 3 in Breakdown of SFC activity data on page 165 for more details.

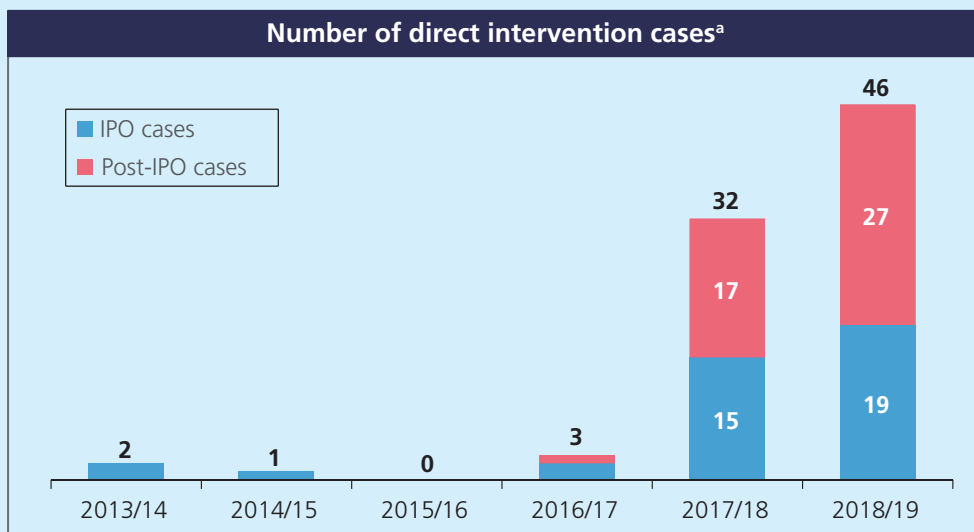
Two years into our front-loaded approach

Our front-loaded regulatory approach emphasises earlier and more targeted intervention to tackle market irregularities and protect the investing public. We closely monitor conduct and directly intervene in the listing market where necessary. We also cooperate with SEHK in joint policy actions. This approach complements our traditional enforcement actions which have been the SFC’s primary response towards misconduct.

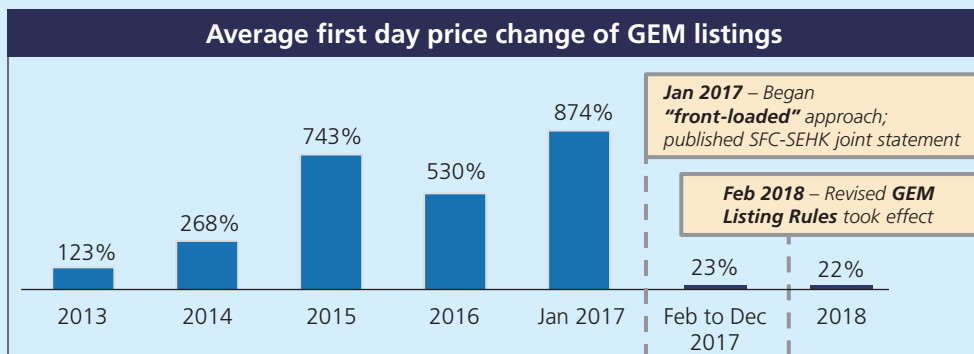
After we adopted this front-loaded approach in early 2017, the number of cases where our direct intervention involved the actual or potential use of our SMLR powers increased significantly.

We target the most serious forms of misconduct. In particular, we are concerned about harmful speculative activities, indications of which may be an exponential increase in market capitalisation over an unusually short period of time, shares trading at an inexplicably high valuation, “shell” related activities or networks of companies with complex patterns of cross-holdings.

Our direct interventions and coordinated policy actions with SEHK made it more difficult for listed companies to be used as vehicles for improper market activities. For example, we were concerned about the share price volatility of newly-listed GEM stocks. On the first day of trading, their share prices increased an average of five times in 2016 and eight times in the first month of 2017.



^a Does not include action listed in Table 7 on page 168.



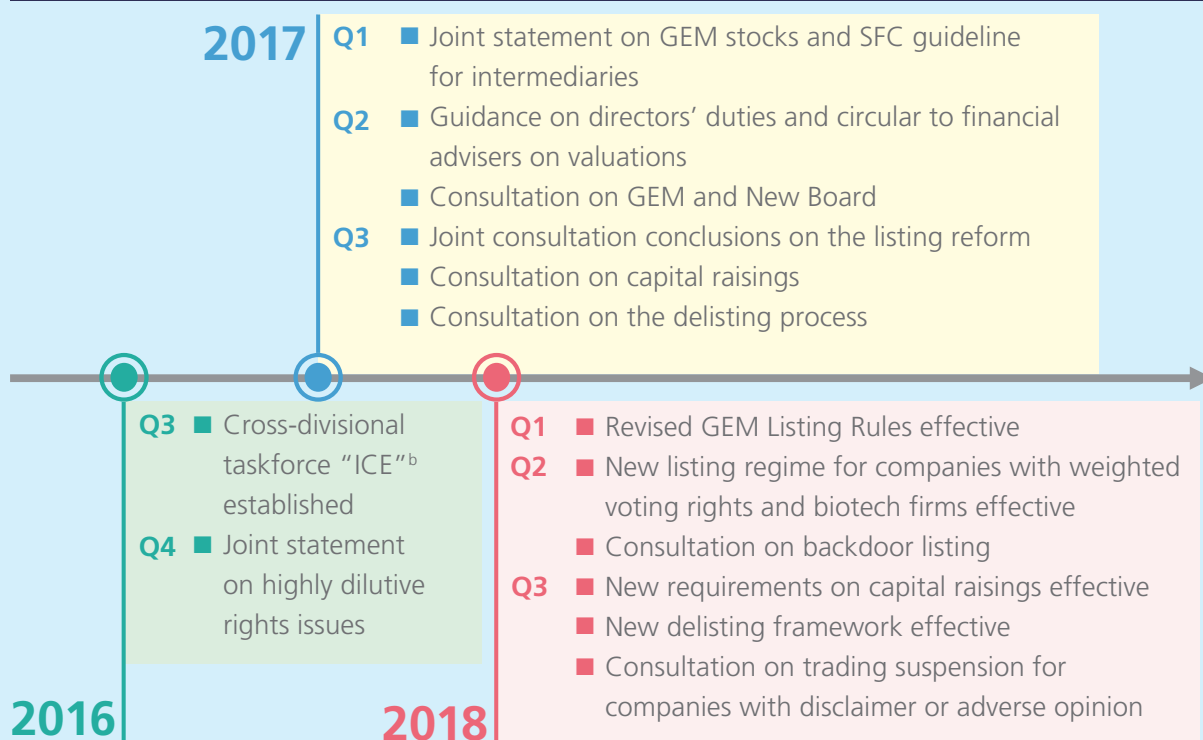
Note: Based on calendar year.

To tackle this, in January 2017 we issued guidance materials with SEHK and explained the requirements for having an adequate spread of shareholders and a fair and orderly market for new listings. We also took regulatory action, conducting investigations and exercising our SMLR powers. As a result, we observed a significant decrease in the volatility of newly-listed GEM stocks.

interests of minority shareholders. After discussions with us, SEHK introduced a series of measures to address this. Coupled with the SFC’s front-loaded approach, the result was a substantial drop in the number of these transactions. In addition, there were fewer deeply-discounted share placements, an area where the SFC often directly intervened.

In recent years, we have seen highly dilutive rights issues and open offers structured or conducted in a manner which appeared to be against the

Key milestones



^b The Intermediaries, Corporate Finance and Enforcement divisions.