

Corporates

Emerging and innovative companies

Following the SFC's approval, The Stock Exchange of Hong Kong Limited (SEHK) published conclusions to its consultation on the proposed new rules to expand the listing regime to facilitate the listing of companies from emerging and innovative sectors which took effect on 30 April. The Listing Rules now introduce new chapters to allow listings of biotech companies which do not meet existing financial eligibility tests as well as innovative and high growth companies with weighted voting rights (WVR) structures. A new concessionary secondary listing route for Greater China and international innovative companies listed on qualifying exchanges is also provided.

Backdoor listings and shell activities

To maintain the quality and integrity of our markets, we have been working closely with SEHK on a thematic review of listed companies' regulation. The review includes amendments to the Listing Rules and reforms which aim to curb sharp share price movements of GEM stocks on their trading debuts and highly dilutive capital raisings. In June, SEHK published a consultation paper on backdoor listings and continuing listing criteria which will end on 31 August.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 124 new listing applications, up 69.9% from 73 in the previous quarter and 44.2% from 86 in the same quarter last year. This was another record high. We issued one "letter of mindedness to object" directly to a listing applicant¹.

During the quarter, we received three listing applications from companies with WVR structures and five listing applications from biotech companies.

Corporate conduct

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we issued section 179² directions to gather additional information in 13 cases and wrote to detail our concerns in 10 transactions. These concerns included, for example, whether a corporate action or transaction had been or is being conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

Listing applications and takeovers activities

	Quarter ended 30.6.2018	Quarter ended 31.3.2018	Change (%)	Quarter ended 30.6.2017	YoY change (%)
Listing applications	124	73	69.9	86	44.2
Takeovers and share buy-backs transactions	111	62	79	132	-15.9

¹ The SFC may object to a listing of securities based on one or more of the grounds set out in section 6(2) of the Securities and Futures (Stock Market Listing) Rules. A letter of mindedness to object sets out the SFC's substantive concerns along with detailed reasons.

² 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.

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In May, we published the second issue of the *SFC Regulatory Bulletin: Listed Corporations*, which highlighted our early intervention in serious corporate cases including those involving inaccurate or incomplete information in listing applications as well as questionable fundraisings and acquisitions of listed companies.

Takeovers matters

We introduced a new note to section 4.2 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs to align these codes with the new listing regime for companies from emerging and innovative sectors effective from April.

Our three-month consultation on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs ended in April and we issued our

conclusions on 13 July. Respondents were generally supportive of the proposals. Measures introduced to enhance investor protection include empowering the Takeovers Panel³ to require compensation be paid to shareholders who have suffered as a result of a breach of these codes as well as increasing the threshold for independent shareholder approval of a whitewash waiver to 75%.

Other changes include amendments to clarify the power of the Takeover Executive⁴, the Takeovers Panel and the Takeovers Appeal Committee to issue compliance rulings and that persons dealing with them must be open and cooperative. The amendments were gazetted on 13 July and took immediate effect.

³ Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive at the request of any party dissatisfied with such a ruling.

⁴ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.