

# Operational Review

## Corporates

### Listing regulation

Following the SFC's approval, The Stock Exchange of Hong Kong Limited's (SEHK) new Listing Rules for the suspension of listed companies with a disclaimer or adverse audit opinion on their financial statements will apply to preliminary annual results announcements for financial years commencing on or after 1 September. This followed the release of SEHK's May conclusions to its public consultation on proposed suspension requirements which aim to safeguard the quality and reliability of listed companies' financial statements and enhance investor protection.

In July, SEHK issued conclusions to its consultation on proposed amendments to the Listing Rules to tackle the problems associated with backdoor listings and shell activities, adopting all the proposals with a few modifications. Concurrently, we issued a statement explaining our approach to these issues. The SFC will work in parallel with SEHK to monitor the market and intervene using its statutory powers under the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance (SFO) where appropriate to tackle these activities.

### Climate-related disclosure by listed companies

One priority of the SFC's strategic framework<sup>1</sup> for the development of green finance in Hong Kong is to enhance listed companies' environmental disclosure, with an emphasis on climate-related risks and opportunities. To this end, we have been working closely with SEHK to provide guidance and consult the market on enhancements to the disclosure requirements under the Listing Rules. In May, SEHK published a consultation paper which emphasises the importance of a governance structure for environmental, social and governance (ESG) issues and the board's leadership role and accountability in ESG. Key proposals include the introduction of mandatory disclosure requirements for governance, including processes for identifying material ESG issues. Significant climate-related issues will be required to be disclosed on a "comply-or-explain" basis.

### Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 105 new listing applications, up 25% from 84 in the previous quarter.

We received one listing application from a company with a weighted voting rights structure and three listing applications from pre-profit biotech firms in the quarter.

<sup>1</sup> See the SFC's *Strategic Framework for Green Finance* published in September 2018.

Listing applications and takeovers activities

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
Listing applications received	105	84	25	124	-15.3
Takeovers and share buy-back transactions	103	88	17	111	-7.2

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 179<sup>2</sup> directions to gather additional information in 40 cases and wrote to detail our concerns in seven transactions. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

In July, we issued a statement outlining recurring misconduct in corporate acquisitions and disposals which has prompted intervention by the SFC. The statement reminds directors and their advisers to comply with their statutory and other legal duties when evaluating or approving the acquisition or disposal of a company or business.

Takeovers matters

In April, we publicly criticised Kwok Tse Wah for breaching the dealing restrictions and dealing disclosure obligations under the Takeovers Code. Kwok, a party acting in concert with the offeror, sold shares in Hopewell Holdings Limited during the offer period. He also failed to disclose the sale publicly within the applicable time limit.

In a decision published in July, the Takeovers and Mergers Panel ruled that a waiver of the general offer obligation under the Takeovers Code should not be granted to China Baowu Steel Group Corporation Limited if it proceeds with the proposed acquisition of a 51% interest in Magang (Group) Holding Company Limited—the controlling shareholder of the SEHK-listed Maanshan Iron & Steel Company Limited—at nil consideration<sup>3</sup>.

<sup>2</sup> 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.

<sup>3</sup> Upon completion of the proposed transaction, China Baowu would trigger a mandatory general offer for Maanshan Iron & Steel Company Limited pursuant to the “chain principle” unless a waiver is obtained.