

# The Stock Exchange of Hong Kong Limited

## Practice Note 4

to the Rules Governing the Listing of Securities  
(the “Exchange Listing Rules”)

Issued pursuant to rule 1.06 of the Exchange Listing Rules

### ISSUE OF NEW WARRANTS TO EXISTING WARRANTHOLDERS

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#### 1. Definitions

Terms used in this Practice Note which are defined or interpreted in the Exchange Listing Rules shall have the same meaning as in the Exchange Listing Rules.

For the purpose of this Practice Note the intrinsic value of a warrant is defined as the average closing price of the underlying security for the preceding three months prior to the date of the application, less the exercise price.

#### 2. General

The Exchange has been concerned that proposals to issue new warrants to existing warrant holders (rather than to shareholders in proportion to their shareholdings) may be unfair to shareholders and to those warrant holders who have disposed of their existing warrants.

#### 3. The Existing Requirements

Rule 15.02(2) stipulates that warrants must not expire less than one and not more than five years from the date of issue or grant and must not be convertible into further rights to subscribe securities which expire less than one or more than five years after the date of the issue or grant of the original warrants.

#### 4. The Exchange’s New Requirements

Where an issuer proposes to issue new warrants to existing warrant holders or to alter the exercise period or the exercise price of existing warrants, the Exchange will not approve the issue of the new warrants or the proposed alteration in the terms of existing warrants, unless the following requirements additional to rule 15.02(2) are met:—

- a) the existing warrants must have a positive intrinsic value. The Exchange will not consider any such proposal where the existing warrants do not have a positive intrinsic value;
- b) the number of new warrants offered to the holders of the existing warrants must not normally be larger than the number of existing warrants held by them;
- c) the warrant proposal must be subject to the approval of shareholders and warrant holders in accordance with the provisions of the issuer's constitutive documents and terms of the relevant warrant instrument respectively, and must be approved at such meetings by special resolution. The Exchange reserves the right to require that any connected person of the issuer who holds more than 10% of the outstanding existing warrants shall abstain from voting on the matter;
- d) the relevant circulars to shareholders and warrant holders must both contain details of any dealings by the issuer, and, where relevant, the manager of the issue of new warrants, or any of their respective close associates and any dealings by any core connected persons of the issuer (so far as is known to the issuer or any director of the issuer after making reasonable enquiries) in the existing warrants and the underlying securities to which the warrants relate, during the period commencing three months prior to the announcement of the warrant proposal and ending on the date of the relevant circular. If such disclosure reveals that any such persons have been actually dealing in either the warrants or the underlying securities the Exchange reserves the right not to approve the issue of the new warrants or the proposed alteration in the terms of the existing warrants;
- e) the relevant circular to shareholders must contain an opinion by an independent financial adviser acceptable to the Exchange as to whether the proposed issue of new warrants or alteration in the terms of the existing warrants is fair and reasonable so far as the shareholders of the issuer are concerned;
- f) the application for the listing of the new warrants must be accompanied by a legal opinion, from a lawyer of the relevant jurisdiction, confirming that the warrant proposal complies with the relevant provisions of the issuer's constitutive documents and the terms of the existing warrant instrument;
- g) the warrant proposal may not be announced unless the issuer can fulfil all of the above conditions, subject only to obtaining the approval of shareholders, warrant holders, and the Listing Committee. Such announcement should be made in accordance with rule 2.07C as soon as possible after the Listing Division have confirmed to the issuer that they are satisfied that the relevant requirements have been met; and

- h) any such proposal must be approved by shareholders and warrant holders more than six months prior to the expiry of the existing warrants.

Listed issuers are reminded that they will also have to comply with the usual listing requirements, including but not limited to rules 8.08 and 8.09.

- 5. This Practice Note takes effect from 14 August 1991.

Hong Kong, 14 August 1991

Revised on 25 June 2007