

## Chapter 10

### EQUITY SECURITIES

#### RESTRICTIONS ON PURCHASE AND SUBSCRIPTION

##### Restrictions on Preferential Treatment of Purchase and Subscription Applications

- 10.01 Normally no more than ten per cent. of any securities being marketed for which listing is sought may be offered to employees or past employees of the issuer or its subsidiaries or associated companies and their respective dependants or any trust, provident fund or pension scheme for the benefit of such persons on a preferential basis (including selection under a placing in accordance with the placing guidelines set out in Appendix 6). Any preferential treatment must be approved by the Exchange prior to the marketing and the issuer concerned may be called upon to supply particulars of such employees, past-employees and their respective dependants and the objects, beneficiaries or members of any trust, provident fund or pension scheme as well as the results of subscription by employees, past-employees, their respective dependants and any trust, provident fund or pension scheme for the benefit of such persons. The issuer must maintain records of such particulars for a period of not less than 12 months from the date of approval and make the same available for inspection by the Exchange during the said period.
- 10.02 The applications for securities offered under any preferential treatment scheme must be made on separate forms supplied by the issuer for this purpose in order to distinguish them from other applications.

##### Restrictions on Directors' Purchase and Subscription

- 10.03 Directors of the issuer and their associates may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant, whether in their own names or through nominees if the following conditions are met:—
- (1) that no securities are offered to them on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and
  - (2) that the minimum prescribed percentage of public shareholders required by rule 8.08(1) is achieved.

##### Restrictions on Existing Shareholders' Purchase and Subscription

- 10.04 A person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in rules 10.03(1) and (2) are fulfilled.

##### Restrictions and Notification Requirements on Issuers Purchasing their own Shares on a Stock Exchange.

- 10.05 An issuer may purchase its sShares on the Exchange or on another stock exchange recognised for this purpose by the Commission and the Exchange, under the exemption from the general offer rule contained in Rule 2 of the Code on Share Repurchases. All such purchases must be made in accordance with rule 10.06. Rules 10.06(1), 10.06(2)(f) and 10.06(3) apply only to issuers whose primary listing is on the Exchange while the rest of rule 10.06(2) and rules 10.06(4), (5) and (6) apply to all issuers. The Code on Share Repurchases must be complied with by an issuer and its directors

and any breach thereof by an issuer will be a deemed breach of the Exchange Listing Rules Listing Agreement and the Exchange may in its absolute discretion take such action to penalise any breach of this paragraph or the Listing Agreement as it shall think appropriate. It is for the issuer to satisfy itself that a proposed purchase of sShares falls within the exemption provided in Rule 2 of the Code on Share Repurchases.

- 10.06 (1) (a) An issuer whose primary listing is on the Exchange may only purchase sShares on the Exchange, either directly or indirectly, if:—
- (i) the sShares proposed to be purchased by the issuer are fully-paid up;
  - (ii) the issuer has previously sent to its shareholders an Explanatory Statement complying with the provisions of rule 10.06(1)(b); and
  - (iii) the shareholders of the issuer have given a specific approval or a general mandate to the directors of the issuer to make such purchase(s), by way of an ordinary resolution which complies with the provisions of rule 10.06(1)(c) and which has been passed at a General Meeting of the issuer duly convened and held and the issuer has delivered a copy of such resolution, together with the necessary supporting documentation, to the Exchange in accordance with rule 10.06(1)(d);
- (b) the issuer must send to its shareholders an Explanatory Statement (at the same time as the notice of the relevant shareholders' meeting) containing all the information reasonably necessary to enable those shareholders to make an informed decision on whether to vote for or against the ordinary resolution to approve the purchase by the issuer of sShares including the information set out below:—
- (i) a statement of the total number and description of the sShares which the issuer proposes to purchase;
  - (ii) a statement by the directors of the reasons for the proposed purchase of sShares;
  - (iii) a statement by the directors as to the proposed source of funds for making the proposed purchase, which shall be funds legally available for such purposes in accordance with the issuer's constitutive documents and the laws of the jurisdiction in which the issuer is incorporated or otherwise established;
  - (iv) a statement as to any material adverse impact on the working capital or gearing position of the issuer (as compared with the position disclosed in its most recent published audited accounts) in the event that the proposed purchases were to be carried out in full at any time during the proposed purchase period, or an appropriate negative statement;
  - (v) a statement of the name of any directors, and to the best of the knowledge of the directors having made all reasonable enquiries, any associates of the directors, who have a present intention, in the event that the proposal is approved by shareholders, to sell sShares to the issuer, or an appropriate negative statement;
  - (vi) a statement that the directors have undertaken to the Exchange to exercise the power of the issuer to make purchases pursuant to the proposed resolution in accordance with the Exchange Listing Rules and the laws of the jurisdiction in which the issuer is incorporated or otherwise established;
  - (vii) a statement as to the consequences of any purchases which will arise under the Takeovers Code of which the directors are aware, if any;

- (viii) a statement giving details of any purchases by the issuer of sShares made in the previous six months (whether on the Exchange or otherwise), giving the date of each purchase and the purchase price per sShare or the highest and lowest prices paid for such purchases, where relevant;
- (ix) a statement as to whether or not any connected persons of the issuer have notified the issuer that they have a present intention to sell sShares to the issuer or have undertaken not to sell any of the sShares held by them to the issuer, in the event that the issuer is authorised to make purchases of sShares;
- (x) a statement giving the highest and lowest prices at which the relevant sShares have traded on the Exchange during each of the previous twelve months; and
- (xi) a statement on the front page as follows:

“The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.”

The Explanatory Statement must be reviewed by the Exchange prior to its dispatch to shareholders of the issuer and must not be issued until the Exchange has confirmed to the issuer that it has no further comments thereon;

- (c) the ordinary resolution proposed to shareholders to give the directors of the issuer a specific approval or general mandate to purchase sShares must include the following:—
  - (i) the total number and description of the sShares which the issuer is authorised to purchase, provided that the number of sShares which the issuer is authorised to purchase on the Exchange or on another stock exchange recognised for this purpose by the Commission and the Exchange under the Code on Share Repurchases, may not exceed 10 per cent. of the issued share capital of the issuer and the total number of warrants to subscribe for or purchase shares (or other relevant class of securities) authorised to be so purchased may not exceed 10 per cent. of the warrants of the issuer (or such other relevant class of securities, as the case may be), in each case as at the date of the resolution granting the general mandate; and
  - (ii) the dates on which the authority conferred by the resolution will commence and determine. Such authority may only continue in force until:—
    - (A) the conclusion of the first annual general meeting of the issuer following the passing of the resolution at which time it shall lapse unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
    - (B) revoked or varied by ordinary resolution of the shareholders in general meeting, whichever occurs first; and
- (d) the issuer shall report the outcome of the General Meeting called to consider the proposed purchases to the Exchange immediately following such meeting taking place. In the event that such resolution is duly passed, the issuer shall furnish a copy of such resolution signed by the Chairman of the meeting to the Exchange within 15 days after the resolution is passed, together with a certified copy of the Explanatory Statement.

(2) Dealing Restrictions

- ~~(a) In any one calendar month an issuer shall not purchase Shares on the Exchange numbering more than 25 per cent. of the total number of that kind of Shares which were traded on the Exchange in the preceding calendar month, as stated in the Exchange's daily quotations sheets for the previous month;~~
- (a) An issuer shall not purchase its shares on the Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Exchange;
- (b) an issuer shall not purchase its Sshares on the Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Exchange from time to time;
- (c) an issuer shall not knowingly purchase its Sshares from a connected person and a connected person shall not knowingly sell his sShares to the issuer, on the Exchange;
- (d) an issuer shall procure that any broker appointed by the issuer to effect the purchase of its sShares shall disclose to the Exchange such information with respect to purchases made on behalf of the issuer as the Exchange may request;
- (e) an issuer ~~may shall~~ not purchase its sShares on the Exchange at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding ~~either the~~ the earlier of:
- (i) the date of the board meeting (as such date is first notified to the Exchange in accordance with the Exchange Listing Rules) for the approval of the issuer's results for any year, half-year, quarterly or any other interim period (whether or not required under the Exchange Listing Rules); and
- (ii) the deadline for the issuer to publish an announcement of its results for any year or half-year under the Exchange Listing Rules, or quarterly or any other interim period (whether or not required under the Exchange Listing Rules), preliminary announcement of the issuer's annual results or the publication of the issuer's interim report the issuer (other than an issuer listed pursuant to the provisions of Chapter 24) and ending on the date of the results announcement, the issuer may not purchase its Sshares on the Exchange, unless the circumstances are exceptional;
- (f) an issuer whose primary listing is on the Exchange may not purchase its Sshares on the Exchange if that purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage for that issuer (as determined by the Exchange at the time of listing under rule 8.08); and
- (g) the Exchange may waive all or part of the above restrictions if, in the opinion of the Exchange, there are exceptional circumstances (such as, but without limitation, political or economic events having a material adverse effect on the price of sShares of the issuer or issuers listed on the Exchange generally) justifying the waiver of such restrictions. A waiver may be granted either with respect to a fixed amount of securities of an issuer or generally or on such conditions as the Exchange shall specify and may be expressed to continue for a stated period of time or until further notice.

(3) Subsequent Issues

An issuer whose primary listing is on the Exchange may not make a new issue of ~~s~~Shares or announce a proposed new issue of ~~s~~Shares for a period of 30 days after any purchase by it of ~~s~~Shares, whether on the Exchange or otherwise (other than an issue of securities pursuant to the exercise of warrants, share options or similar instruments requiring the issuer to issue securities, which were outstanding prior to that purchase of its own securities), without the prior approval of the Exchange.

(4) Reporting Requirements

~~In accordance with the issuer's Listing Agreement a~~An issuer shall:—

- (a) report to the Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following any day on which the issuer makes a purchase of ~~s~~Shares (whether on the Exchange or otherwise), the total number of ~~s~~Shares purchased by the issuer the previous day, the purchase price per ~~s~~Share or the highest and lowest prices paid for such purchases, where relevant, and shall confirm that those purchases which were made on the Exchange were made in accordance with the Exchange Listing Rules and if the issuer's primary listing is on the Exchange, that there have been no material changes to the particulars contained in the Explanatory Statement. In respect of purchases made on another stock exchange, the issuer's report must confirm that those purchases were made in accordance with the domestic rules applying to purchases on that other stock exchange. Such reports shall be made in the form set out in Form G in Appendix 5. In the event that no ~~s~~Shares are purchased on any particular day then no return need be made to the Exchange. The issuer should make arrangements with its brokers to ensure that they provide to the issuer in a timely fashion the necessary information to enable the issuer to make the report to the Exchange; and
- (b) include in its annual report and accounts a monthly breakdown of purchases of ~~s~~Shares made during the financial year under review showing the number of ~~s~~Shares purchased each month (whether on the Exchange or otherwise) and the purchase price per ~~s~~Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate price paid by the issuer for such purchases. The directors' report shall contain reference to the purchases made during the year and the directors reasons for making such purchases.

(5) Status of Purchased ~~s~~Shares

The listing of all ~~s~~Shares which are purchased by an issuer (whether on the Exchange or otherwise) shall be automatically cancelled upon purchase and the issuer must apply for listing of any further issues of that type of ~~s~~Shares in the normal way. The issuer shall ensure that the documents of title of purchased ~~s~~Shares are cancelled and destroyed as soon as reasonably practicable following settlement of any such purchase.

(6) General

- (a) The Exchange reserves the right to prohibit an issuer from making purchases of ~~s~~Shares on the Exchange (even if that issuer's primary listing is on another stock exchange) if the Exchange considers that the issuer has committed a breach of any of the Exchange Listing Rules which apply to that issuer. In the event that the Exchange does so prohibit such purchases no Exchange Participant will carry out any such purchases on behalf of the issuer until such prohibition is lifted;

- (b) the Authorised Representatives of the issuer shall respond promptly to any request for information that the Exchange may address to the issuer concerning the purchase of sShares, at any time; and
- (c) for the purposes of rules 10.05, 10.06, 19.20-16 and 19.42-3 “sShares” shall mean shares of all classes and securities which carry a right to subscribe or purchase shares, of the issuer provided that the Exchange may waive the requirements of those rules in respect of any fixed participation sShares which are, in the opinion of the Exchange, more analogous to debt securities than equity securities. References to purchases of sShares include purchases by agents or nominees on behalf of the issuer or subsidiary of the issuer, as the case may be.

### Restrictions on disposal of shares by controlling shareholders following a new listing

- 10.07 (1) A person or group of persons shown by the listing document issued at the time of the issuer’s application for listing to be a-controlling shareholders of the issuer shall not and shall procure that the relevant registered holder(s) shall not:—
- (a) in the period commencing on the date by reference to which disclosure of the shareholding of the controlling shareholders is made in the listing document and ending on the date which is of 6 months from the date on which dealings in the securities of a new applicant commence on the Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, and shall procure that the registered holder shall not dispose of, any of those securities of the issuer in respect of which he is or they are shown by that listing document to be the beneficial owner(s); or
  - (b) in the period of 6 months commencing from on the date on which the period referred to in ~~the~~ rule 10.07(1)(a) expires, dispose of, or permit the registered holder to dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in rule 10.07(1)(a) if, immediately following such ~~disposed~~ disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that person or group of persons would cease to be a controlling shareholder.

Any offer for sale contained in a listing document shall not be subject to such restrictions.

- (2) For the purpose of this rule, a person is treated as the beneficial owner of securities if he has the ultimate beneficial ownership or control of the securities, whether through a chain of companies or otherwise.

Note: (1) ~~A~~ Controlling shareholder(s) is/are free to purchase additional securities and dispose of securities thus purchased in the relevant period, subject to compliance with the requirements of rule 8.08 to maintain an open market in the securities and a sufficient public float.

- (2) Nothing in this rule shall prevent a controlling shareholder from using securities of the issuer beneficially owned by him as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.
- (3) ~~A~~ Controlling shareholder(s) of a new applicant must undertake to the issuer and the Exchange that, within the period commencing on the date by reference to which disclosure of the shareholding of the controlling shareholder(s) is made in the listing document and ending on the date which is of 12 months from the date on which dealings in the securities of a new applicant commence on the Exchange, he/they will:-

- (i) when he/they pledge(s)/charge(s) any securities beneficially owned by him/them in favour of an authorised institution pursuant to Note (2) to rule 10.07(2), immediately inform the issuer of such pledge/charge together with the number of securities so pledged/charged; and
- (ii) when he/they receive(s) indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged securities will be disposed of, immediately inform the issuer of such indications.

The issuer must inform the Exchange as soon as it has been informed of matters referred to in rule 10.07 (2) Note 3 (i) and (ii) by ~~the~~a controlling shareholder and disclose such matters by way of an announcement ~~press notice~~ which is published in the newspapers as soon as possible.

### **No further issues of securities within 6 months of listing**

10.08 No further shares or securities convertible into equity securities of a listed issuer (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within 6 months from the date on which securities of the listed issuer first commence dealing on the Exchange (whether or not such issue of shares or securities will be completed within 6 months from the commencement of dealing), except for:

- (1) the issue of shares, the listing of which has been approved by the Exchange, pursuant to a share option scheme under Chapter 17;
- (2) the exercise of conversion rights attaching to warrants issued as part of the initial public offering;
- (3) any capitalisation issue, capital reduction or consolidation or sub-division of shares; and
- (4) the issue of shares or securities pursuant to an agreement entered into before the commencement of dealing, the material terms of which have been disclosed in the listing document issued in connection with the initial public offering.

### **Restrictions on multiple applications**

- 10.089(1) Where securities are offered to the public for subscription or purchase, issuers, their directors, sponsors and underwriters must take reasonable steps to ensure that multiple or suspected multiple applications are identified and rejected.
- (2) In this rule “multiple applications” means circumstances where more than one application is made by the same person; where a person applies for more than 100% of the securities on offer or where a person applies for more than 100% of the shares available in any pool into which the securities on offer are divided in accordance with Practice Note 18. For the purpose of these rules the shares available in any pool is the initial allocation of shares into the pool prior to the operation of any clawback mechanism required by Practice Note 18.
  - (3) Issuers, their directors, sponsors and underwriters must ensure that it is a term and condition of the offer of the securities (disclosed as such in the listing document and the relevant application form) that by completing and delivering an application form, each applicant warrants that:—
    - (i) (if the application is made for his own benefit) no other application is being made for his benefit by him or by anyone applying as his agent or by any other person;

- (ii) (if the application is made by him as agent for the benefit of another person) no other application is being made by him as agent for or for the benefit of that person or by that person or by any other person as agent for that person;
- (iii) if he signs the application form as agent for someone else, he has due authority to do so on behalf of that other person.

The application form shall include a warning as follows:—

*“Warning:—*

*Only one application may be made for the benefit of any person.”*

and a declaration and representation as follows:—

*“I/we hereby declare that this is the only application made and the only application intended by me/us to be made, to benefit me/us or the person for whose benefit I am/we are applying. I/we understand that this declaration/representation will be relied upon by the issuer in deciding whether or not to make any allotment of shares in response to this application.”*

The application form shall also contain a stipulation to the effect that an application made by an unlisted company which does not carry on any business other than dealing in shares and in respect of which a person exercises statutory control shall be deemed to be an application made for the benefit of that person.

*Note: For the purpose of rule 10.089(1), having taken reasonable steps as required by that rule, issuers, their directors, sponsors and underwriters will be entitled to rely on the declaration/representations made by an applicant.*