

## Frequently asked questions on calculation of value dilution

Release Date (Last Update Date)	Main Board Rules	GEM Rules	Series No.	FAQ No.	Query	Response
04/05/2018 <a href="#">(03/07/2018)</a>	7.27B	10.44A	N/A	024-2018	<p>Company A has 100 shares in issue, trading at HK\$1.0 for the past five trading days. It proposes to issue 50 new shares at HK\$0.75 through a rights issue (i.e. a 1-for-2 rights issue issued at a 25% discount to market price).</p> <p>(a) What is the theoretical dilution effect of this rights issue?</p> <p>(b) If Company A decides to issue the offer shares at a premium over the market price, what is the theoretical dilution effect of this rights issue?</p>	<p>(a) Please <del>refer to Appendix III of the Consultation Paper on Capital Raisings by Listed Issuers</del> see <b>Attachment</b>.</p> <p>(b) Where the offer price is at a premium over the market price, the theoretical dilution effect as computed under Rule 7.27B would produce a positive figure, i.e. there is no value dilution to non-participating shareholders.</p>
04/05/2018	7.27B	10.44A	N/A	025-2018	<p>Company B proposes a placing of convertible bonds (or warrants) under specific mandate.</p> <p>How should Company B compute the theoretical dilution effect of the proposed placing?</p>	<p>The theoretical dilution effect of the placing of convertible bonds (or warrants) should be computed on an as-converted basis, i.e. applying the initial conversion price (or the sum of the initial placing price and the exercise price) and the corresponding number of conversion shares (or subscription shares) for the computation.</p>

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04/05/2018 <a href="#">(03/07/2018)</a>	7.27B	10.44A	N/A	026-2018	<p>Company C conducted an open offer under the authority of an existing general mandate 6 months ago. It further proposes to conduct a specific mandate placing with theoretical dilution effect of 24%.</p> <p>(a) Is Company C required to aggregate the previous open offer and the proposed specific mandate placing?</p> <p>(b) How should Company C compute the cumulative theoretical dilution effect?</p>	<p>(a) Yes. All open offers are subject to the aggregation requirements under Rule 7.27B. This is notwithstanding the authority upon which the offer shares are issued.</p> <p>(b) Please <del>refer to Appendix III of the Consultation Paper on Capital Raisings by Listed Issuers</del> see Attachment.</p> <p>The cumulative value dilution can be calculated by the following formula:</p> $\frac{(C_1 \times Y_1) + (C_2 \times Y_2) + \dots + (C_n \times Y_n)}{Sh + C_1 + C_2 + \dots + C_n}$ <p><i>Sh = Number of issued shares immediately before the 1st offer or placing</i></p> <p><i>C<sub>1</sub> = Number of shares to be issued in the 1st offer or placing</i></p> <p><i>C<sub>2</sub> = Number of shares to be issued in the 2nd offer or placing</i></p> <p><i>C<sub>n</sub> = Number of shares to be issued in the nth offer or placing</i></p> <p><i>Y<sub>1</sub> = Price discount of the 1st offer or placing</i></p> <p><i>Y<sub>2</sub> = Price discount of the 2nd offer or placing</i></p> <p><i>Y<sub>n</sub> = Price discount of the nth offer or placing</i></p>
04/05/2018	7.27B	10.44A	N/A	027-2018	<p>Company D conducted a rights issue that is not underwritten and the rights issue was undersubscribed.</p> <p>For the purpose of computing cumulative dilution effect for the next capital raising by Company D, should it use the maximum number of shares issuable or the actual number of shares issued under the previous rights issue?</p>	<p>Company D should use the actual number of shares issued under the previous rights issue for the purpose of computing cumulative dilution effect.</p>

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### Attachment

The cumulative value dilution is calculated by reference to (i) the aggregate number of shares issued during the 12-month period, compared to the number of issued shares immediately prior to the first offer or placing; and (ii) the weighted average of the price discounts (each price discount is measured against the market price of shares at the time of the offer).

Company A conducted the following capital raisings:

- (i) a 1-for-2 rights issue with offer price at a price discount of 25%;
- (ii) a 1-for-1 rights issue with offer price at a price discount of 40%; and
- (iii) a specific mandate placing of 50% of existing issued shares at a price discount of 70%.

		<u>Rights issue August 2018</u>	<u>Rights issue November 2018</u>	<u>Placing March 2019</u>
<b><u>Theoretical value dilution of each pre-emptive offer / placing</u></b>				
No. of issued shares before capital raising	<u>A</u>	100	150	300
Issue size	<u>B</u>	50%	100%	50%
Number of offer/placing shares to be issued (= <u>A x B</u> )	<u>C</u>	50	150	150
Benchmarked price	<u>X</u>	HK\$1.0	HK\$0.92	HK\$0.73
Price discount	<u>Y</u>	25%	40%	70%
Offer / placing price (= <u>X x (1- Y)</u> )	<u>Z</u>	HK\$0.75	HK\$0.55	HK\$0.22
Shareholding value before rights issue / placing = <u>A x X</u>	<u>J</u>	HK\$100.00	HK\$137.50	HK\$220.00
Subscription amount = <u>C x Z</u>	<u>K</u>	HK\$37.50	HK\$82.50	HK\$33.00
No. of enlarged issued shares = <u>A + C</u>	<u>L</u>	150	300	450
Theoretical ex-price = ( <u>J + K</u> ) / <u>L</u>	<u>TEP</u>	HK\$0.92	HK\$0.73	HK\$0.56
<b><u>Theoretical value dilution (TD)</u></b> = ( <u>TEP - X</u> ) / <u>X</u>	<u>TD</u>	<b><u>-8.3%</u></b>	<b><u>-20.0%</u></b>	<b><u>-23.3%</u></b>

		<u>Rights issue August 2018</u>	<u>Rights issue November 2018</u>	<u>Placing March 2019</u>
<b><u>Cumulative theoretical value dilution</u></b>				
Share in issue immediately before 12-month period	<u>Sh</u>	100	100	100
Benchmarked price immediately before 12-month period	<u>Pr</u>	HK\$1.00	HK\$1.00	HK\$1.00
Number of offer/placing shares to be issued	<u>C</u>	50	150	150
<b><u>Aggregated number of offer/placing shares (i.e. Sum of C)</u></b>	<u>D</u>	<b><u>50</u></b>	<b><u>200</u></b>	<b><u>350</u></b>
Price discount	<u>Y</u>	25%	40%	70%

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		<u>Rights issue August 2018</u>	<u>Rights issue November 2018</u>	<u>Placing March 2019</u>
<b>Cumulative theoretical value dilution</b>				
<u>Average price discount (i.e. weighted average of Y by reference to C)</u>	<i>R</i>	<u>25%</u>	<u>36%</u>	<u>51%</u>
<u>Shareholding value before 1st rights issue = Sh x Pr</u>	<i>M</i>	<u>HK\$100.00</u>	<u>HK\$100.00</u>	<u>HK\$100.00</u>
<u>Cumulative subscription amount = D x [Pr x (1 - R)]</u>	<i>N</i>	<u>HK\$37.50</u>	<u>HK\$128.00</u>	<u>HK\$171.50</u>
<u>No. of enlarged issued shares</u>	<i>L</i>	<u>150</u>	<u>300</u>	<u>450</u>
<u>Cumulative theoretical ex-price = (M + N) / L</u>	<i>CTEP</i>	<u>HK\$0.92</u>	<u>HK\$0.76</u>	<u>HK\$0.60</u>
<b><u>Cumulative theoretical value dilution = (CTEP - Pr) / Pr</u></b>	<b><i>CTD</i></b>	<b><u>-8.3%</u></b>	<b><u>-24.3%</u></b>	<b><u>-39.7%</u></b>

The cumulative value dilution can also be calculated by the following formula:

$$\frac{(C_1 \times Y_1) + (C_2 \times Y_2) + \dots + (C_n \times Y_n)}{Sh + C_1 + C_2 + \dots + C_n}$$

Sh = Number of issued shares immediately before the 1st offer or placing

C<sub>1</sub> = Number of shares to be issued in the 1st offer or placing

C<sub>2</sub> = Number of shares to be issued in the 2nd offer or placing

C<sub>n</sub> = Number of shares to be issued in the nth offer or placing

Y<sub>1</sub> = Price discount of the 1st offer or placing

Y<sub>2</sub> = Price discount of the 2th offer or placing

Y<sub>n</sub> = Price discount of the nth offer or placing