

## Whether a proposed rights issue of shares with bonus warrants required independent shareholders' approval

### Facts

1. A Main Board issuer (**Company A**) announced a rights issue of one rights share for every two existing shares, plus two bonus warrants for every five subscribed and fully paid rights shares. It had not conducted any rights issue or open offer during the past 12 months.
2. The rights shares excluding the new shares convertible from the bonus warrants would represent 50% of Company A's existing issued share capital. They together with the new shares convertible from the bonus warrants would represent 70% of the existing share capital.
3. Company A submitted that the rights issue was not subject to independent shareholder approval under Rule 7.19A(1) as the total amount of rights shares, excluding the new shares convertible from the bonus warrants, did not exceed the 50% threshold in the Rule. It excluded the bonus warrants because in its view, the Rule requires an issuer to take into account any bonus securities, warrants or other convertible securities granted as part of any rights issues and open offers in the past 12 months, but not those forming part of the proposed rights issue.

### Relevant Listing Rules

4. Rule 7.19A(1) states that:

A proposed rights issue must be made conditional on minority shareholders' approval in the manner set out in rule 7.27A if the proposed rights issue would increase either the number of issued shares... of the issuer by more than 50% (on its own or when aggregated with any other rights issues or open offers announced by the issuer (i) within the 12 month period immediately preceding the announcement of the proposed rights issue or (ii) prior to such 12 month period where dealing in respect of the shares issued pursuant thereto commenced within such 12 month period, together with any bonus securities, warrants or other convertible securities (assuming full conversion) granted or to be granted to shareholders as part of such rights issues or open offers).

(Rule 7.19A(1) was amended on 11 June 2024. See Note below.)

5. Rule 7.27A states that:

Where minority shareholders' approval is required for a rights issue ... under Rule 7.19A ...:

- (1) the rights issue ... must be made conditional on approval by shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour; ....

...

## Analysis

6. The purpose of Rule 7.19A(1) is to protect minority shareholders' interests when the potential dilution effect of a proposed rights issue (individually or together with any similar fund raising exercise(s) made in the previous 12 months) is material.
7. The Exchange disagreed with Company A's view on the application of Rule 7.19A(1) to the bonus warrants. Under the Rule, an issuer must take into account the proposed rights issue and any other rights issues or open offers made in the past 12 months, together with any bonus securities, warrants or other convertible securities "*granted or to be granted to shareholders as part of such rights issues or open offers*". These bonus securities, warrants or other convertible securities include those forming part of (1) the proposed rights issue and (2) any previous rights issues or open offers.
8. Here, the bonus warrants formed part of the rights issue. When assessing the ownership dilution effect of the rights issue under Rule 7.19A(1), Company A should take into account the shares convertible from the bonus warrants.

## Conclusion

9. As the rights issue would increase Company A's issued share capital by 70%, it required independent shareholder approval under Rules 7.19A(1) and 7.27A.

*Note: Rule 7.19A(1) was amended on 11 June 2024 to exclude treasury shares from the issuer's number of issued shares in determining whether the rights issue requires minority shareholders' approval. The Rule amendments would not change the analysis and conclusion in this case.*