

# 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 F1). 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 that can be distinguished from other applications and the relevant application data should be input into FINI by the approved share registrar.

#### Restrictions on Directors' Purchase and Subscription

- 10.03 Directors of the issuer and their close 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 Subject to the provisions of the Code on Share Buy-backs, an issuer may purchase its shares on the Exchange or on another stock exchange recognised for this purpose by the Commission and the Exchange. 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 Buy-backs 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 and the Exchange may in its absolute discretion take such action to penalise any breach of this paragraph as it shall think appropriate. It is for the issuer to satisfy itself that a proposed purchase of shares does not contravene the Code on Share Buy-backs.
- 10.06 (1) (a) An issuer whose primary listing is on the Exchange may only purchase shares on the Exchange, either directly or indirectly, if:—
- (i) the shares 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) its shareholders have given a specific approval or a general mandate to its directors to make the purchase(s), by way of an ordinary resolution which complies with rule 10.06(1)(c) and which has been passed at a General Meeting of the issuer duly convened and held;
- (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 shares including the information set out below:—

- (i) a statement of the total number and description of the shares which the issuer proposes to purchase;
- (ii) a statement by the directors of the reasons for the proposed purchase of shares;
- (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 close associates of the directors, who have a present intention, in the event that the proposal is approved by shareholders, to sell shares to the issuer, or an appropriate negative statement;
- (vi) a statement that the directors will 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 shares made in the previous six months (whether on the Exchange or otherwise), giving the date of each purchase and the purchase price per share or the highest and lowest prices paid for such purchases, where relevant;
- (ix) a statement as to whether or not any core connected persons of the issuer have notified the issuer that they have a present intention to sell shares to the issuer or have undertaken not to sell any of the shares held by them to the issuer, in the event that the issuer is authorised to make purchases of shares;
- (x) a statement giving the highest and lowest prices at which the relevant shares have traded on the Exchange during each of the previous twelve months;

- (xi) a statement that neither the Explanatory Statement nor the proposed share repurchase has any unusual features;
- (xii) a statement of whether the issuer intends to cancel the repurchased shares following settlement of any such repurchase or hold them as treasury shares; and
- (xiii) a statement on the front page as follows:

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- (c) the ordinary resolution proposed to shareholders to give the directors of the issuer a specific approval or general mandate to purchase shares must include the following:—
  - (i) the total number and description of the shares which the issuer is authorised to purchase, provided that the number of shares 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 Buy-backs, may not exceed 10 per cent. of the number of issued shares (excluding treasury shares) 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

*Note: If the issuer conducts a share consolidation or subdivision after the repurchase mandate has been approved in general meeting, the maximum number of shares that may be repurchased under the mandate as a percentage of the total number of issued shares at the date immediately before and after such consolidation or subdivision shall be the same.*

- (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 must report the outcome of the General Meeting called to consider the proposed purchases to the Exchange immediately following the meeting.
- (2) Dealing Restrictions
  - (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 shares 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 shares from a core connected person and a core connected person shall not knowingly sell shares to the issuer, on the Exchange;
  - (d) an issuer shall procure that any broker appointed by the issuer to effect the purchase of its shares 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 shall not purchase its shares on the Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of 30 days immediately preceding the earlier of:
    - (i) the date of the board meeting (as such date is first notified to the Exchange in accordance with the 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 Listing Rules); and

- (ii) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, the issuer may not purchase its shares on the Exchange, unless the circumstances are exceptional;

- (f) an issuer whose primary listing is on the Exchange may not purchase its shares 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 shares 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) (a) Subsequent Issues, or Sales or Transfers of Treasury Shares

An issuer whose primary listing is on the Exchange may not (i) make a new issue of shares, or a sale or transfer of any treasury shares; or (ii) announce a proposed new issue of shares, or a sale or transfer of any treasury shares, for a period of 30 days after any purchase by it of shares, whether on the Exchange or otherwise, without the prior approval of the Exchange.

*Note: This rule will not apply to:*

- (i) *a new issue of shares, or a sale or transfer of treasury shares under a capitalisation issue;*

- (ii) *a grant of share awards or options under a share scheme that complies with Chapter 17 or a new issue of shares or a transfer of treasury shares upon vesting or exercise of share awards or options under the share scheme that complies with Chapter 17; and*
- (iii) *a new issue of shares or a transfer of treasury shares pursuant to the exercise of warrants, share options or similar instruments requiring the issuer to issue shares or transfer treasury shares, which were outstanding prior to that purchase of its own shares.*

(b) Subsequent Purchase of its Own Shares

An issuer whose primary listing is on the Exchange may not purchase any of its own shares on the Exchange for a period of 30 days after any sale or transfer of any treasury shares on the Exchange, without the prior approval of the Exchange.

(4) Reporting Requirements

An issuer shall:—

- (a) submit for publication to the Exchange through HKEx-EPS 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 shares (whether on the Exchange or otherwise):
  - (i) the total number of shares purchased by the issuer the previous day, the purchase price per share or the highest and lowest prices paid for such purchases, where relevant;
  - (ii) whether the purchased shares are cancelled following settlement of any such purchase or held as treasury shares, and where applicable, the reasons for any deviation from the intention statement previously disclosed by the issuer under rule 10.06(1)(b)(xii); and

- (iii) a confirmation 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 on a return in such form and containing such information as the Exchange may from time to time prescribe. In the event that no 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 shares made during the financial year under review showing the number of shares purchased each month (whether on the Exchange or otherwise) and the purchase price per 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 Shares

The shares repurchased by an issuer shall be held as treasury shares or cancelled. The listing of all shares which are held as treasury shares shall be retained. The issuer shall ensure that treasury shares are appropriately identified and segregated.

The listing of all shares which are purchased by an issuer (whether on the Exchange or otherwise) but not held as treasury shares shall be automatically cancelled upon purchase and the issuer must apply for listing of any further issues of that type of shares in the normal way. The issuer shall ensure that the documents of title of these purchased 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 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 shares, at any time; and
- (c) for the purposes of rules 10.05, 10.06 and 19.16 “shares” 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 shares which are, in the opinion of the Exchange, more analogous to debt securities than equity securities. References to purchases of shares include purchases by agents or nominees on behalf of the issuer or subsidiary of the issuer, as the case may be.

### **Treasury Shares**

10.06A An issuer may sell treasury shares on the Exchange under a general mandate approved by shareholders in accordance with rule 13.36(2)(b), subject to the following:

- (1) it shall not knowingly sell the shares to a core connected person and a core connected person shall not knowingly purchase the shares from the issuer, on the Exchange;
- (2) it shall procure that any broker appointed by the issuer to effect the sale of the shares shall disclose to the Exchange such information with respect to the sales made on behalf of the issuer as the Exchange may request; and
- (3) it shall not sell the shares on the Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of 30 days immediately preceding the earlier of:
  - (a) the date of the board meeting (as such date is first notified to the Exchange in accordance with the 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 Listing Rules); and
  - (b) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, the issuer may not sell treasury shares on the Exchange, unless the circumstances are exceptional.

10.06B An issuer shall:

- (1) submit for publication to the Exchange through HKEx-EPS 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 sale of treasury shares on the Exchange or any other stock exchange on which the issuer is listed (“on-market sale of treasury shares”):
  - (a) the total number of treasury shares sold by the issuer the previous day;
  - (b) the selling price per share or the highest and lowest prices received for such sales, where relevant;
  - (c) the total funds raised; and
  - (d) where the treasury shares are sold under a general mandate granted to the directors by the shareholders in accordance with rule 13.36(2)(b), details of the mandate.

Such reports shall be made on a return in such form and containing such information as the Exchange may from time to time prescribe. In the event that no treasury shares are sold 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;

- (2) announce any on-market sale of treasury shares if it, individually or together with previous on-market sales of treasury shares in a 12-month period that have not yet been announced under rule 10.06B(2), amounts to 5% or more of the issuer’s number of issued shares (excluding treasury shares). The announcement must contain the following information relating to such sale(s) of treasury shares:
  - (a) the number, class and aggregate nominal value of the treasury shares sold;
  - (b) the total funds raised from such sale(s) with details of the use of proceeds;
  - (c) the selling price per share or the highest and lowest prices received for such sale(s), where relevant;
  - (d) the reasons for making such sale(s);

- (e) where the treasury shares are sold under a general mandate granted to the directors by the shareholders in accordance with rule 13.36(2)(b), details of the mandate; and
  - (f) the total funds raised and a detailed breakdown and description of the funds raised on any issue of equity securities, and/or other sale or transfer of treasury shares in the 12 months immediately preceding the announcement, the use of such proceeds, the intended use of any amount not yet utilised and how the issuer has dealt with such amount; and
- (3) include in its annual report and accounts a monthly breakdown of on-market sales of treasury shares during the financial year under review showing the number of treasury shares sold each month and the selling price per share or the highest and lowest prices received for all such sales, where relevant, and the aggregate proceeds received by the issuer for such sales. The directors' report shall contain reference to the on-market sales of treasury shares made during the year, the total funds raised from such sales with details of the use of proceeds and the directors' reasons for making such sales.

#### **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 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 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, 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 on the date on which the period referred to in rule 10.07(1)(a) expires, 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 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) 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) *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 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 a controlling shareholder and disclose such matters by way of an announcement which is published in accordance with rule 2.07C as soon as possible.*

- (3) Any share lending arrangement entered into by a controlling shareholder pursuant to an agreement in relation to the public offering of equity securities to facilitate settlement of over-allocations shall not be subject to the restrictions of rule 10.07(1) provided the following requirements are complied with:

- (a) the share lending arrangement is fully described in the initial listing public offering document and must be for the sole purpose of covering any short position prior to the exercise of the underwriter's over-allotment option in the initial public offering placing;
  - (b) the maximum number of shares to be borrowed from the controlling shareholder by the underwriter is the maximum number of shares that may be issued upon full exercise of the over-allotment option;
  - (c) the same number of shares so borrowed is returned to the controlling shareholder or its nominee (as the case may be) within 3 business days after the last day on which the over-allotment option may be exercised or, if earlier, the date on which the over-allotment option is exercised in full;
  - (d) borrowing of shares pursuant to the share lending arrangement will be effected in compliance with applicable listing rules, laws and other regulatory requirements; and
  - (e) no payments will be made to the controlling shareholder by the underwriter in relation to the share lending arrangement.
- (4) The provisions of 10.07(1)(a) and (b) shall not apply to an issuer that has successfully transferred its listing from GEM to the Main Board pursuant to Chapter 9A or 9B, provided that any plan by the controlling shareholders of the issuer to dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the issuer has been prominently disclosed in the listing document or the announcement required under rule 9B.08, as the case may be.

**No further issues of securities or sales or transfers of treasury shares  
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 sold or transferred out of treasury or form the subject of any agreement to such an issue, or sale or transfer out of treasury 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, or sale or transfer of treasury shares 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), or transfer of treasury shares pursuant to a share 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;
- (4) the issue of shares or securities, or sale or transfer of treasury shares 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; and
- (5) the issue of shares or securities, or sale or transfer of treasury shares to be traded on the Main Board by a listed issuer that has successfully transferred its listing from GEM to the Main Board pursuant to Chapter 9A or 9B, provided that any plan to raise funds within six months from the date of the transfer of the issuer's listing to the Main Board has been prominently disclosed in the listing document or the announcement required under rule 9B.08, as the case may be.

### **Restrictions on multiple applications**

- 10.09 (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 makes the application as agent for someone else, he has only given one set of application instructions for that other person's benefit and has due authority to do so on behalf of that other person.

The application channel shall include a warning as follows:—

*“Warning:—*

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

and the application channel shall include 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 channel 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 10.09 (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.*