

Highly dilutive issue of shares or resale of treasury shares

1. How should a listed issuer calculate the value dilution for a series of rights issues and specific mandate placing?

The cumulative value dilution is calculated by reference to (i) the aggregate number of shares issued or sold or transferred out of treasury during the 12-month period, compared to the number of issued shares (excluding treasury 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).

For example, a listed issuer 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 (excluding treasury shares) at a price discount of 70%.

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

Cumulative theoretical value dilution		Rights issue August 2018	Rights issue November 2018	Placing March 2019
Shares in issue <u>(excluding treasury shares)</u> immediately before 12-month period	Sh	100	100	100
Benchmarked price immediately before 12-month period	Pr	HK\$1.00	HK\$1.00	HK\$1.00
Number of offer/placing shares to be issued <u>or sold or transferred out of treasury</u>	C	50	150	150
Aggregated number of offer/placing shares (i.e. Sum of C)	D	50	200	350
Price discount	Y	25%	40%	70%
Average price discount (i.e. weighted average of Y by reference to C)	R	25%	36%	51%
Shareholding value before 1st rights issue	$M = Sh \times Pr$	HK\$100.00	HK\$100.00	HK\$100.00
Cumulative subscription amount	$N = D \times [Pr \times (1 - R)]$	HK\$37.50	HK\$128.00	HK\$171.50
No. of enlarged issued shares <u>(excluding treasury shares)</u>	L	150	300	450
Cumulative theoretical ex-price	$CTEP = (M + N) / L$	HK\$0.92	HK\$0.76	HK\$0.60
Cumulative theoretical value dilution	$CTD = (CTEP - Pr) / Pr$	-8.3%	-24.3%	-39.7%

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 (excluding treasury shares) immediately before the 1st offer or placing

C_1 = Number of shares to be issued or sold or transferred out of treasury in the 1st offer or placing

C_2 = Number of shares to be issued or sold or transferred out of treasury in the 2nd offer or placing

C_n = Number of shares to be issued or sold or transferred out of treasury in the nth offer or placing

Y_1 = Price discount of the 1st offer or placing

Y_2 = Price discount of the 2nd offer or placing

Y_n = Price discount of the nth offer or placing

MB Rule 7.27B
GEM Rule 10.44A

First released: May 2018; last updated: ~~May~~ June 2024



2. If a listed issuer proposes to issue rights shares at a premium over the market price, what is the theoretical dilution effect of this rights issue?

Where the offer price is at a premium over the market price, the theoretical dilution effect as computed under MB Rule 7.27B / GEM Rule 10.44A would produce a positive figure, i.e. there is no value dilution to non-participating shareholders.

*MB Rule 7.27B
GEM Rule 10.44A
First released: May 2018; last updated: May 2024*

3. How should a listed issuer calculate the theoretical dilution effect of a proposed placing of convertible bonds or warrants?

The theoretical dilution effect should be calculated 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 calculation.

*MB Rule 7.27B
GEM Rule 10.44A
First released: May 2018; last updated: May 2024*