

# Whether the Exchange would approve the proposed share subdivision and increase in board lot size shortly after the listed issuer completed a rights issue and a share consolidation

## Facts

### Background

1. About six months ago, a Main Board issuer (**Company A**) announced a rights issue of shares at a discount to the market price. As the theoretical ex-right price would drop to about HK\$0.1 based on the then share price, Company A also announced a 10 into 1 share consolidation to bring the theoretical price up proportionally with a view to ensuring compliance with Rule 13.64.
2. About five months later after the announcement, the rights issue and share consolidation were completed. Between the announcement date and the completion date, Company A's shares were trading in the price range of HK\$0.09 to HK\$0.19 (or HK\$0.9 to HK\$1.9 after the price adjustments for the rights issue and share consolidation).

### Proposal

3. One month after the completion of the share consolidation, Company A proposed a 1 into 5 share subdivision, and a change in trading board lot size from 2,000 shares to 8,000 shares. Its shares were then trading at prices of about HK\$1.7 to HK\$2.
4. Company A was of the view that the liquidity in its shares was low due to the high trading price in its shares and board lot value when compared with those of other similar listed companies. Based on the then share price, after the proposed share subdivision, the adjusted share price would be reduced to HK\$0.32 and the adjusted board lot value would exceed HK\$3,200.
5. Under Rule 13.52B(1), Company A consulted the Exchange on its proposed share subdivision and the related trading arrangements.

## Relevant Listing Rules

6. Rule 2.03 states that:

*“The Listing Rules reflect currently acceptable standards in the market place and are designed to ensure that investors have and can maintain confidence in the market and in particular that:—*

*(1) ...;*

*(2) the issue and marketing of securities is conducted in a fair and orderly manner ... ;*

*...*

*(4) all holders of listed securities are treated fairly and equally;*

*(5) directors of a listed issuer act in the interests of its shareholders as a whole — particularly where the public represents only a minority of the shareholders; and*

*(6) ....*

*In these last four respects, the rules seek to secure for holders of securities, other than controlling interests, certain assurances and equality of treatment which their legal position might not otherwise provide.”*

7. Rule 13.64 states that:

*“Where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities.”*

8. As set out in the Exchange’s Guide on Trading Arrangements for Selected Types of Corporate Actions, for the purpose of Rule 13.64, the Exchange considers any trading price less than HK\$0.1 to be approaching the extremity.

9. Rule 13.52B(1) states that:

*“Where the subject matter of the document may involve a change in or relate to or affect arrangements regarding trading in the issuer’s listed securities ..., the issuer must consult the Exchange before the document is issued. The document must not include any reference to a specific date or specific timetable in respect of such matter which has not been agreed in advance with the Exchange.”*

## Analysis

10. Issuers may effect share consolidation or subdivision to change the numbers of their shares in issue, resulting in a corresponding increase or decrease in the market price per share. These changes may serve to facilitate trading activities and improve market efficiency. As these corporate actions affect the arrangements for trading shares on the Exchange, issuers must seek the Exchange's prior approval.
11. While share consolidation or subdivision itself do not change shareholders' proportionate interests in an issuer, such corporate actions involve costs and they would result in existing shareholders holding odd lots or fractional shares, which are usually traded at prices lower than those in complete board lots. While some issuers would arrange for intermediaries to offer matching services, this could not eliminate the negative effect of such corporate actions for the shareholders, particularly for smaller shareholders holding one or a few board lots.
12. In light of this, prior to proceeding with share consolidation or subdivision, directors should consider all the relevant factors and take reasonable steps to demonstrate that the proposal can serve its intended purpose and is in the best interest of the issuer and its shareholders. Factors that directors should take into account, which are not exhaustive:
  - whether the proposed action is justifiable in light of the potential costs and negative impact arising from creation of odd lots to shareholders;
  - that the frequency of any share consolidation or subdivision be kept to a reasonable level to minimize the costs arising from odd lots as a result of unnecessary repeated actions;
  - whether a proposed share consolidation or subdivision may have an effect of offsetting the intention of any prior, or other simultaneous corporate action (e.g. share consolidation followed by share subdivision within a relatively short time span, or share subdivision made in conjunction with an increase in board lot size);
  - whether there is a sufficient demonstration period to support that the share trading price is not temporary and a proposed share consolidation or subdivision is justified (e.g. a reasonable period of high trading price to justify a proposed share subdivision); and
  - whether there is any other available alternative methods (e.g. change in board lot size instead of share subdivision).
13. When considering the case of Company A, the Exchange noted that:
  - Company A submitted that the purpose of the proposed 1 into 5 share subdivision was to increase trading liquidity. However, its proposal also involved an increase in board lot size by 4 times, and the adjusted board lot value would only be slightly below the current value. The combined effects of these corporate actions might not entirely support the purported reason for proposing the actions. Company A failed to justify the proposal and why it would be in the best interest of the shareholders as a whole, particularly taking into account the potential odd lots creation.

- While there was recent increase in Company A's share price to above HK\$2, its shares were trading at most time during the last six months at the price of around HK\$0.9 to HK\$1 only (after the adjustment for share consolidation). Company A was unable to demonstrate that its shares were trading at fairly high prices over a reasonable period to justify its proposed share subdivision.
  - The proposed share subdivision was put forward shortly after completion of the share consolidation. It is not clear how the two actions could be justified within a short period.
  - Company A failed to consider other alternatives (e.g. reducing the board lot size to bring down the value each board lot for its intended purpose of increasing trading liquidity).
14. In light of the above, the Exchange considered that Company A had not provided sufficient reasons to support its proposal at this time.

## Conclusion

15. The Exchange did not approve the proposed share subdivision and increase in board lot size.

## Subsequent development

16. Under Rule 13.64A (which became effective on 3 July 2018), an issuer must not undertake a subdivision (or bonus issue) of shares if its share price adjusted for the subdivision (or bonus issue) is less than HK\$1 based on the lowest daily closing price of the shares during the six month period before the announcement of the share subdivision (or bonus issue). Without prejudice to the requirements of Rule 13.64A, listed issuers proposing share subdivision or consolidation should continue to follow the Exchange's guidance set out in this Listing Decision.
17. With effect from 2 July 2026, issuers are required to comply with a board lot framework with requirements including the board lot value floor guidance of HK\$1,000, board lot value ceiling guidance of HK\$50,000 (applicable to issuers with a board lot size greater than 100 shares), and a standardised board lot unit to one of the eight prescribed options of 1, 50, 100, 500, 1,000, 2,000, 5,000 or 10,000 share(s). The requirements would not change the analysis and conclusion in this case where the aforesaid board lot framework was not applicable to Company A at the material time.