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Our Ref

24 November 2017

Dear Sirs

**Re: Consultation Paper on Capital Raisings by Listed Issuers**

KPMG welcomes the opportunity to respond to the Consultation Paper on Capital Raisings by Listed Issuers. Unless otherwise noted, terms used in our responses herein shall have the same meanings as those defined in the Consultation Paper.

We have considered the proposals in the Consultation Paper and agree with the Rule amendments to tackle problematic capital raising activities. We believe these Rule amendments can promote an orderly market for securities trading and enhance the protection of the interest of minority shareholders.

**Proposed rule amendments relating to highly dilutive capital raisings**

We are in favour of restricting an issuer's ability to undertake highly dilutive pre-emptive offers that would result in a material value dilution to non-subscribing shareholders unless there are exceptional circumstances. When there is no pressure on liquidity or financial difficulties, there should be no reason for the issuer to undertake a highly dilutive pre-emptive offer. Therefore, we consider the proposal would not affect the fund raising ability of issuers with genuine business plans. In order to prevent any circumvention of the restriction by breaking up the highly dilutive pre-emptive offers into several transactions, we agree with the "see-through" approach, which aggregates a series of offers for consideration.

Also, we consider that share issuances under a specific mandate, or share placements, should follow the same principles applied to pre-emptive offers. We support the Exchange's proposal that the restriction should also apply to share issuance under a specific mandate.

**Proposed rule amendments relating to other capital raising activities**

We are of the view that a higher degree of protection should be given to minority shareholders in case of an open offer and therefore are in support of the proposal in extending the minority shareholder approval requirement to all open offers. We also support the proposal to remove the compulsory underwriting requirement for pre-emptive offers in order to provide more flexibility to the small issuers in funds raisings activities.



Regarding whether the controlling or substantial shareholder can act as underwriters, we are of the view that all shareholders should not be prohibited from providing the funds the issuer requires. In this regard, we believe the removal of the connected transaction exemption for underwriting (including sub-underwriting) of pre-emptive offers by connected persons along with the mandatory compensatory arrangements for unsubscribed shares would be effective means to safeguard the interest of minority shareholders.

#### **Other proposed rule amendments**

In order to promote the transparency of fund raising activities and the quality of information disclosed to the public, we support the requirement for issuers to disclose the use of proceeds for all equity fundraisings in their interim and annual reports.

Last but not least, we agree with the proposals on subdivision or bonus issue of shares. In theory, there is no value creation to shareholders in the event of a share subdivision or bonus issue of shares. However, low-priced shares are, in general, more volatile. We are therefore in favour of imposing a minimum price requirement on the subdivision or bonus issue of shares in order to maintain a fair and orderly market for securities trading.

#### **Conclusion**

Fair and equal treatment of all shareholders is important to a quality and efficient market and any abuse of the Rule for personal advantages should be prohibited. The proposed Rule amendments codify the current practices of Exchange on capital raising activities, which can provide a clearer guidance to the market and reiterate Exchange's position on zero tolerance to false market activities.

We look forward to seeing the conclusions in relation to the Consultation Paper on Capital Raisings by Listed Issuers.

Yours faithfully

