

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017092.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with the proposal to disallow highly dilutive pre-emptive offers unless there are exceptional circumstances?

Yes

No

If your answer is "No", please give reasons for your views.

2. Do you agree with the proposed 25% threshold on value dilution? If not, what is the appropriate percentage threshold and the reasons for this threshold?

Yes

No  
(Please specify the appropriate percentage threshold 40%)

If your answer is "No", please give reasons for your views.

***Given that pre-emptive offers reaching the specific threshold will be prohibited outright and it is likely that Exchange will apply the "exceptional circumstances" exception only in extreme or special circumstances, a higher percentage threshold is suggested to balance the commercial needs of companies to raise capital. In any event, under the proposed rule amendment, even if a pre-emptive offer does not reach the fixed percentage threshold, the Exchange still retains the discretion to withhold approval or impose additional requirements where it takes the view that the offer ratio or price discount is unfair.***

3. Do you agree that the proposed requirements should also apply to share issuance under a specific mandate?

Yes

No

If your answer is "No", please give reasons for your views.

***Under a specific mandate, shareholders are giving specific approval after having been told of the circumstances. Therefore, there should not be any additional percentage threshold restriction.***

4. Do you agree with the proposal to aggregate rights issues, open offers and specific mandate placings within a rolling 12-month period?

Yes

No

If your answer is "No", please give reasons for your views.

***The merits of each issue, if independent and not forming part of a series of related deals, need to be considered on their own.***

5. Do you agree with the proposed method of calculating cumulative value dilution? If not, what is the appropriate method?

Yes

No  
(Please specify the appropriate method \_\_\_\_\_)

If your answer is "No", please give reasons for your views.

***The calculation method is too difficult and arbitrary. Each dilution should be calculated on its own rather than on cumulative basis.***

6. Do you agree with the proposal to extend the minority shareholder approval requirement to all open offers (unless the new securities are issued under the general mandate)?

Yes

No

If your answer is "No", please give reasons for your views.

7. Do you agree with the proposal to remove the underwriting requirement for pre-emptive offers?

Yes

No

If your answer is "No", please give reasons for your views.

8. Do you agree with our proposal to require underwriters to be licensed persons independent from the issuers and their connected persons?

Yes

No

If your answer is "No", please give reasons for your views.

***There may be circumstances where licensed persons are not willing to act or require a high level of compensation to act, in which case controlling shareholders and other connected persons need to step in.***

9. In view of paragraphs 72 and 73 of the Consultation Paper:

(a) do you agree that controlling shareholders should be allowed to act as underwriters?

Yes

No

If your answer is “Yes”, please give reasons for your views.

***Some small listed companies may not be able to find independent underwriters to underwrite their offers. Engaging independent underwriters may also incur high underwriting fees which is not commercially viable for small listed companies.***

(b) do you think that substantial (but not controlling) shareholders should be allowed to act as underwriters?

Yes

No

If your answer is “Yes”, please give reasons for your views.

***To allow greater flexibility for listed companies.***

10. Do you agree that compensatory arrangements should be mandatory when pre-emptive offers are underwritten by connected persons?

Yes

No

If your answer is “No”, please give reasons for your views.

***This may impose a burden on the listed company. It is likely that a nominee or agent has to be engaged in order to implement the compensatory arrangement.***

11. Do you agree with the proposal to remove the connected transaction exemption for underwriting (including sub-underwriting) of pre-emptive offers by connected persons?

Yes

No

If your answer is "No", please give reasons for your views.

***In acting as underwriters, the connected persons are only taking up shares which the other shareholders decide not to take up. This is to be distinguished from other normal connected transactions.***

12. Do you agree with the proposal to make it mandatory for issuers to adopt either the excess application arrangement or the compensatory arrangement in rights issues and open offers?

Yes

No

If your answer is "No", please give reasons for your views.

13. Do you agree with the proposal to limit the excess applications by a controlling shareholder and his/her/its associates to a maximum number equivalent to the offer shares minus their pro rata entitlements?

Yes

No

If your answer is "No", please give reasons for your views.

14. Do you agree with our proposal to disallow the use of general mandate for placing of warrants and options for cash consideration?

Yes

No

If your answer is "No", please give reasons for your views.

***However, the proposed new rule 13.36(6)(a) should be redrafted. Currently, apart from warrants, the proposed rule also refers to "options or similar rights to subscribe for any new shares of the issuer or any securities convertible into new shares of the issuer" which may be read as including convertible securities (which under the proposed rule amendment should only be subject to the initial conversion price restriction).***

15. Do you agree with the proposal to disallow any price discount of the initial conversion price of convertible securities to be placed under general mandate?

Yes

No

If your answer is "No", please give reasons for your views.

16. Do you agree with the proposal to require disclosure of the use of proceeds from all equity fundraisings in interim and annual reports?

Yes

No

If your answer is "No", please give reasons for your views.

17. Do you agree with the proposal to impose a minimum price requirement on subdivision or bonus issue of shares?

Yes

No

If your answer is "No", please give reasons for your views.

18. Do you agree with the proposed minimum adjusted price of HK\$1? If not, what is the threshold you consider appropriate: (a) HK\$0.5; or (b) other?

HK\$1

HK\$0.5

Other (Please specify the appropriate threshold HK\$0.10)

If you answer is "Other", please give reasons for your views.

***Setting the minimum adjusted price at HK\$0.5 would effectively mean that companies with share price lower than that will be barred from conducting any subdivision.***

19. Do you support a demonstration period of six months? If not, please specify the period you consider appropriate.

Yes

No  
(Please specify the appropriate demonstration period \_\_\_\_\_)

If your answer is "No", please give reasons for your views.

***No demonstration period should be required.***

- End -

