

Summary: HKEX Guidance Letter GL88-16 (April 2016)
Guidance on bonus issues of shares

By way of background, there have been instances where issuers conducted large-scale bonus issues of shares (e.g. involving multiples of its existing shares). These issues typically result in a squeeze in the availability of shares and significant share price volatility when the shares trade “ex bonus”, before the allotment of the new bonus shares. While the underlying issue relates to the trading structure, it may also give rise to market abuses.

I. Background and underlying principles

- that the issue and marketing of securities be conducted in a fair and orderly manner
- a bonus issue is an allotment of new shares by a listed company to its existing shareholders, credited as fully paid, in proportion to their existing shareholdings. HKEX approval is needed, for listing of further shares issued by a listed company

II. Issues arising out of our current trading arrangements:

- there is a time interval between the ex-entitlement date for a bonus issue (the “ex date”) and the date of the allotment of the bonus shares (the “allotment date”)
- the previous closing share price is adjusted downwards on the ex-date, but the bonus shares would not be available for trading until after the allotment date
- this causes causing a “squeeze” in the availability of shares and significant fluctuations in a number of cases, where listed companies conducted bonus issues of shares with a large distribution ratio
- typically, the purpose of bonus issuances is to increase the liquidity of the shares in the market. This can be achieved by share sub divisions.

III. HKEX may not grant approval for “large scale” distributions

- HKEX may not grant listing approval of “large scale issuances” e.g. proposed bonus issue of shares of 200% of more of existing issued shares
- will only grant approval under exceptional circumstances — e.g. regulatory restrictions for the company to effect a share sub division under the laws of its place of incorporation, or the exchange on which its shares are also listed

IV. Other issues to note:

- timetable -- keep the time interval between the ex-date and the allotment date as short as possible
- disclosure -- clear disclosure if the bonus issue is subject to conditions
- trading limits (Rule 13.64: if the share price approaches the extremity of HK0.01)-- HKEX considers any trading price less than HK\$0.1 as infringing the rule

April, 2016