**HKEX GUIDANCE LETTER**
**HKEX-GL88-16 (April 2016) (Updated in July 2018)**

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| **Subject** | **Guidance on bonus issues of shares** |
| **Listing Rules and Regulations** | **Main Board Rules 2.03, 2.06, 8.20 and 13.64A**<br>**GEM Rules 2.06, 2.09, 11.30(2) and 17.76A** |

**Important note:** *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Department on a confidential basis for an interpretation of the Listing Rules or this letter.*

## I. Purpose

1. This letter provides guidance on the Exchange's approach in handling bonus issues of shares by listed companies.

## II. Relevant Listing Rules

2. 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: -*

*…*

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

3. Rule 2.06 states that:

*"Suitability for listing depends on many factors. Applicants for listing should appreciate that compliance with the Exchange Listing Rules may not of itself ensure an applicant's suitability for listing. The Exchange retains a discretion to accept or reject applications and in reaching their decision will pay particular regard to the general principles outlined in rule 2.03. …"*

4. Rule 8.20 states that"

*"Listing must be sought for all further issues of securities of a class already listed prior to the issue of the securities."*

## III. Guidance

5. A bonus issue of shares is an allotment of new shares by a listed company to its existing shareholders, credited as fully paid out of its reserves or profits, in proportion to their shareholdings[1].

6. Bonus issues are one of the methods that listed companies may use to bring equity securities to listing. In addition to the specific Rule requirements on this type of issues, listed companies must also comply with the general principle of the Rules to ensure that their issues of shares are conducted in a fair and orderly manner. Listed companies should observe the following guidance which is not meant to be exhaustive.

***Size of bonus issues***

7. Under the current trading arrangements, there is a time interval between the ex-entitlement date for a bonus issue (the **ex-date**)[2] and the date of allotment of the bonus shares (the **allotment date**). The previous closing share price is adjusted downward on the ex-date but the bonus shares would not be available for trading until the allotment date, causing a squeeze in the availability of shares and significant price fluctuations during the ex-entitlement period. The Exchange noted untoward price fluctuations in a number of cases where listed companies conducted bonus issues of shares with a large distribution ratio.

8. Generally, the reason given by companies for conducting bonus issues of shares[3] is to increase the liquidity of their shares in the market. This could also be achieved by effecting a share subdivision. Both bonus issues and share subdivisions serve to increase the number of shares outstanding and reduce the share price.

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[1] When a company issues bonus shares under the "no-par" regime, such shares will have no nominal value, meaning the company is no longer required to transfer an amount to share capital if it issues shares for no consideration, unless it elects to do so (for example, by capitalising profits). Therefore, a company may allot and issue bonus shares either with or without increasing its share capital.

[2] Under the T+2 settlement cycle, shares will be traded ex-entitlements to the bonus issue on the trading day immediately before the record date (or the last registration date where there is a book closure). Share price will be adjusted downward on the ex-date in accordance with the distribution ratio. A portion of the shareholders' holdings in the company will not be tradeable until the bonus shares are issued.

[3] As highlighted in the Securities and Futures Commission's Corporate Regulation Newsletter of March 2016, it could be misleading or inaccurate if a company discloses its bonus issue of shares as "a reward" to shareholders or a means to widen its capital base.

9. It is the responsibility of listed companies to ensure that their issues of bonus shares are conducted in a fair and orderly manner. The Exchange may not grant listing approval for large scale bonus issues of shares where there is reasonable likelihood of disorderly trading during the ex-entitlement period. In these circumstances, the Exchange will normally expect listed companies to adopt share subdivisions. This would avoid disorderly trading during the ex-entitlement period of bonus issues of shares. Generally, the Exchange is likely to raise concern about the operation of an orderly market when a company proposes a bonus issue of shares of 200% or more of existing issued shares. This is despite that the Exchange may raise the same concern even if the bonus issue proposed by a company is of a smaller scale after considering the relevant facts and circumstances.

10. The Exchange will grant listing approval for large scale bonus issue of shares only in exceptional circumstances. For example, if there are regulatory restrictions for the company to effect a share subdivision under the laws in the place of its incorporation or the requirements of other stock exchange where it is dually listed. In these circumstances, the company must demonstrate that its proposed issue is not likely to give rise to disorderly trading during the ex-entitlement period.

***Timetable for bonus issues***

11. Listed companies should also follow the guidance set out in the "Guide on distribution of dividend and other entitlements" when planning their bonus issues. In particular, they should keep the time interval between the ex-date and the allotment date as short as practicable. Where a bonus issue is subject to condition(s), the company must clearly disclose the condition(s) in the bonus issue announcement.

***~~Trading limits~~Restrictions***

~~It would not be acceptable for a listed company to propose a bonus issue of shares (or share subdivision) that violates the principle of Rule 13.64. Under this rule, the Exchange has the right to require a company to change the trading method or to proceed with a consolidation of its securities when the market price of its securities approaches the extremity of HK$0.01, which the Exchange considers to be any trading price less than HK$0.1[4].~~

12. Under Rule 13.64A, a listed company must not issue bonus shares (or subdivide its 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 subdivision or bonus issue.

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~~[4] See also the "*Guide on trading arrangements for selected types of corporate actions*"~~