

# Chapter 21

## EQUITY SECURITIES

### OPTIONS, WARRANTS AND SIMILAR RIGHTS

21.01 This Chapter applies both to options, warrants and similar rights to subscribe or purchase equity securities of an issuer which are issued or granted by that issuer or by any of its subsidiaries (“warrants”) and to warrants which are attached to other securities but does not apply to any options which are granted under a share option scheme which complies with Chapter 23. Warrants which are attached to other securities but which are non-detachable are convertible securities and are also subject to the provisions of Chapters 22 (convertible equity securities) or 34 (convertible debt securities), as appropriate.

21.02 All warrants must, prior to the issue or grant thereof, be approved by the Exchange, and in addition, where they are warrants to subscribe equity securities, by the shareholders in general meeting (unless they are issued by the directors under the authority of a general mandate granted to them by shareholders in accordance with rule 17.41(2)). In the absence of exceptional circumstances which would include, by way of example, a rescue reorganisation, the Exchange will only grant approval to the issue or grant of warrants to subscribe securities if the following requirements are complied with:—

- (1) the securities to be issued on exercise of the warrants must not, when aggregated with all other equity securities which remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20 per cent of the issued equity capital of the issuer at the time such warrants are issued. Options granted under share option schemes which comply with Chapter 23 are excluded for the purpose of this limit.

The following are also excluded for the purpose of this limit:—

- (a) convertible preference shares (and any equity securities into which the same convert); and
  - (b) convertible bonds (and any equity securities into which the same convert);
- (2) such warrants must expire not less than 1 and not more than 5 years from the date of issue or grant and must not be convertible into further rights to subscribe securities which expire less than 1 year or more than 5 years after the date of issue or grant of the original warrants.

21.03 The circular or notice to be sent to shareholders convening the requisite meeting under rule 21.02 must include at least the following information:—

- (1) the maximum number of securities which could be issued on exercise of the warrants;
- (2) the period during which the warrants may be exercised and the date when this right commences;
- (3) the amount payable on the exercise of the warrants;
- (4) the arrangements for transfer or transmission of the warrants;
- (5) the rights of the holders on the liquidation of the issuer;

- (6) the arrangements for the variation in the subscription or purchase price or number of securities to take account of alterations to the share capital of the issuer;
- (7) the rights (if any) of the holders to participate in any distributions and/or offers of further securities made by the issuer; and
- (8) a summary of any other material terms of the warrants.

21.04 Where application is made for the listing of warrants, the Exchange will normally apply the same requirements as would apply to the underlying securities to be subscribed or purchased. However, where such an application is contemplated, the Exchange should be consulted at the earliest opportunity as to the requirements which will apply.

21.05 Warrants may be listed only if the underlying securities to be subscribed or purchased are (or will become at the same time) a class of equity securities listed on GEM.

However, the Exchange may list warrants in other circumstances if it is satisfied that holders have the necessary information available to form an opinion concerning the value of the underlying securities to which such warrants relate.

**Issue of new warrants to existing warrant holders  
and/or altering the terms of existing warrants**

21.06 Any alterations to the terms of warrants after issue or grant must be approved by the Exchange, except where the alterations take effect automatically under the terms of such warrants. In particular the Exchange should be consulted at the earliest opportunity where the issuer proposes to alter the exercise period or the exercise price.

21.07 Without prejudice to the generality of rule 21.06, where an issuer proposes to issue new warrants to existing warrant holders and/or alter the exercise period or the exercise price of existing warrants (save for any alterations that take effect automatically under the terms of such existing warrants) (defined for the purposes of this rule as the “warrant proposal”), the Exchange will not approve the warrant proposal unless the following requirements, in addition to those set out in rule 21.02(2) are met:—

- (1) the existing warrants must have a positive intrinsic value;
- (2) the number of new warrants offered to the holders of the existing warrants must not normally be larger than the number of existing warrants held by them;
- (3) the warrant proposal must be subject to the approval of shareholders and warrant holders in accordance with the provisions of the issuer’s constitutive documents and terms of the relevant warrant instrument respectively, and must be approved at such meetings by special resolution. The Exchange reserves the right to require that any connected person of the issuer who holds more than 10% of the outstanding existing warrants shall abstain from voting on the matter;
- (4) the approval of shareholders and warrant holders pursuant to sub-paragraph 3 above must be obtained more than 6 months prior to the expiry of the existing warrants;
- (5) the relevant circulars to shareholders and warrant holders must both contain the information set out in rule 21.03 concerning the warrants forming the subject matter of the warrant proposal and details of any dealings by the issuer, and, where relevant, the manager of the issue of the new warrants, or any of their respective associates and any dealings by any connected persons of the issuer (so far as is known to the issuer or any director of the issuer

after making reasonable enquiries) in the existing warrants and the underlying securities to which the warrants relate, during the period commencing 3 months prior to the announcement of the warrant proposal and ending on the date of the relevant circular. If such disclosure reveals that any such persons have been actually dealing in either the warrants or the underlying securities, the Exchange reserves the right not to approve the issue of the new warrants or the proposed alteration to the terms of the existing warrants;

- (6) the relevant circular to shareholders must contain an opinion by an independent financial adviser acceptable to the Exchange as to whether the warrant proposal is fair and reasonable so far as the shareholders of the issuer are concerned;
- (7) the application for the listing of the new warrants must be accompanied by a legal opinion, from a lawyer of the relevant jurisdiction, confirming that the warrant proposal complies with the relevant provisions of the issuer's constitutive documents and the terms of the existing warrant instrument; and
- (8) the warrant proposal may not be announced unless the issuer can fulfil all of the above conditions to the satisfaction of the Exchange, subject only to obtaining the approval of shareholders, warrant holders and the Exchange. Such announcement should be made as soon as possible after the Exchange has confirmed to the issuer that it is satisfied that the relevant requirements have been met.