

SFC publicly criticises Southwest Securities International Investment Limited, Li Zhi Tao and Dong Jiang Wen for breach of the Takeovers Code

14 Dec 2016

The Securities and Futures Commission (SFC) today publicly criticised Southwest Securities International Investment Limited (SSI Investment), Li Zhi Tao and Dong Jiang Wen (Note 1) for acquiring shares in Southwest Securities International Securities Limited (SSI Securities) within six months after the close of an offer at above the offer price in breach of Rule 31.3 of the Takeovers Code (Note 2).

On 6 January 2015, SSI Investment made an unconditional mandatory general offer in cash for the shares of SSI Securities at a price of \$0.58 per share (Note 3), and the offer closed on 27 January 2015. On 9 and 10 July 2015, SSI Investment made a series of on-market acquisitions of a total of 10,466,000 shares of SSI Securities at prices ranging from \$0.59 to \$1.01.

SSI Investment, Li and Dong submitted that the breaches were not intentional but they accepted that they breached Rule 31.3 and agreed to the current disciplinary action taken against them.

A copy of the [Executive Statement](#) and the relevant Takeovers Code provisions can be found in the "Listings and takeovers – Takeovers and Mergers - Executive decisions and statements" section of the SFC website.

End

Notes:

1. SSI Investment is wholly-owned by Southwest Securities Company Limited, a Shanghai-listed company which is ultimately controlled by the Chongqing State-owned Assets Supervision and Administration Commission. Li and Dong were both employed by Southwest Securities Company Limited at the relevant time.
2. Rule 31.3 of the Takeovers Code prohibits an offeror and its concert parties from buying shares at prices higher than the offer price within six months after the end of the offer period except with the consent of the Takeovers Executive (ie, the Executive Director of the SFC's Corporate Finance Division or his delegate).
3. SSI Securities, formerly known as Tanrich Financial Holdings Limited, is currently listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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**Takeovers Executive of the SFC criticises
Southwest Securities International Investment Limited, Li Zhi Tao and Dong Jiang Wen
in relation to prohibited share acquisitions under the Takeovers Code**

Criticism of Southwest Securities International Investment Limited (“Offeror”), Li Zhi Tao (“Mr Li”) and Dong Jiang Wen (“Mr Dong”)

1. The Executive publicly criticises the Offeror, Mr Li and Mr Dong (together referred to as the “**Parties**”) for acquiring shares in Southwest Securities International Securities Limited (formerly known as Tanrich Financial Holdings Limited) (“**Company**”) within 6 months after the close of an offer (“**Restriction Period**”) at above the offer price in breach of Rule 31.3 of the Takeovers Code (Note).

Background

2. On 6 January 2015 the Offeror made an unconditional mandatory general offer in cash for the shares of the Company (“**Shares**”) at HK\$0.58 per Share. The offer closed on 27 January 2015.
3. The Offeror is wholly-owned by Southwest Securities Company Limited (“**SWSC**”), a Shanghai listed company which is ultimately controlled by the Chongqing State-owned Assets Supervision and Administration Commission. At the relevant time, Mr Li and Mr Dong were employed by SWSC. Mr Li was the General Manager of the Operations Management Department and Mr Dong was the General Manager of each of the Quantitative Investment Department and the Securities Investment Department.
4. On 9 and 10 July 2015 during the Restriction Period, the Offeror made a series of on-market acquisitions of a total of 10,466,000 Shares at prices ranging from HK\$0.59 to HK\$1.01 per Share (“**Acquisitions**”).

Breach of Rule 31.3 of the Takeovers Code

5. Rule 31.3 of the Takeovers Code prohibited the Offeror and its concert parties from buying Shares at prices higher than the offer price of HK\$0.58 per Share during the Restriction Period. The Acquisitions were made at prices higher than HK\$0.58 in breach of Rule 31.3.
6. The Offeror reported the Acquisitions to the Executive on 24 July 2015. The Offeror explained that the Acquisitions were made in light of a joint announcement dated 4 July 2015 issued by 21 PRC securities companies including SWSC which encouraged substantial shareholders in the PRC to increase their shareholdings in the relevant companies. The Parties submitted that the breaches were not intentional and that they had sought legal advice before making the Acquisitions. However, no evidence has been produced to support this suggestion and as a result the Executive has not taken this submission into account as a mitigating factor in reaching its decision under section 12.3 of the Introduction to the Takeovers Code.
7. Mr Li and Mr Dong made the decision to make the Acquisitions under an authority granted by the Offeror’s board in 2014. The Parties have apologised for the breach and agreed to the current disciplinary action taken against them under section 12.3 of the Introduction to the Takeovers Code.
8. The Executive reminds all those involved in takeovers and mergers in Hong Kong of the prohibition imposed by Rule 31.3 of the Takeovers Code. Rule 31.3 affords equality of treatment to shareholders in an offer in accordance with General Principle 1 of the Takeovers Code. The rule provides shareholders with certainty that the offeror will not pay a price higher than the offer price for the shares in the offeree company in the 6-month period after the close of the offer, and as a result, it ensures that all shareholders of the offeree company are treated even-handedly.
9. If there is any doubt about the application of the Takeovers Code, the Executive should be consulted at the earliest opportunity.

Note: Rule 31.3 of the Takeovers Code states that *“Except with the consent of the Executive, if a person, together with any person acting in concert with him, holds more than 50% of the voting rights of a company, neither that person nor any person acting in concert with him may, within 6 months after the end of the offer period of any previous offer made by him to the shareholders of that company which became or was declared unconditional, make a second offer to, or acquire any shares from, any shareholder in that company at a higher price than that made available under the previous offer. For this purpose the value of a securities exchange offer shall be calculated as at the day the offer became, or was declared, unconditional.”*

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