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香港交易所

## The Stock Exchange of Hong Kong Limited

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

Our Ref: CRO20140321-008

21 March 2014

To: Main Board Listed Issuers (Attn: Authorised Representatives)  
GEM Listed Issuers (Attn: Authorised Representatives)  
Market Practitioners

Dear Sirs

### **Rule amendments relating to connected transactions and the definitions of connected person and associate**

We published today the consultation conclusions on:

- [proposed changes to the connected transaction Rules](#); and
- [proposed changes to align the definitions of connected person and associate in the Rules](#).

Given market support, we have adopted most of the proposals set in the consultation papers published on 26 April 2013 with some amendments taking into account the respondents' comments. A summary of the Rule amendments to implement the proposals is set out in the Attachment to this letter.

The Rule amendments will be effective from 1 July 2014.

We also published today the following guidance materials:

- [A new series of frequently asked questions on "Rule Requirements Relating to Connected Transactions" \(Series 28\)](#).
- [A guidance letter on continuing connected transactions and their disclosure](#).
- [Reference tables relating to the revised connected transaction Rules](#).

If you have any questions on the above, please contact our case officers.

Yours faithfully  
For and on behalf of  
The Stock Exchange of Hong Kong Limited

*[Signed]*

David Graham  
Chief Regulatory Officer and Head of Listing

Encl.

香港交易及結算所有限公司  
Hong Kong Exchanges and Clearing Limited

## ATTACHMENT

### Summary of Proposals Adopted

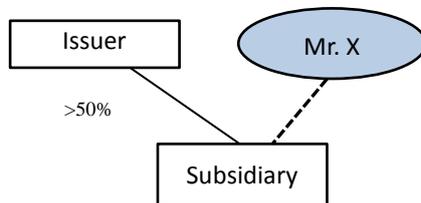
#### Review of Connected Transaction Rules

##### *Plain language amendments*

1. Simplify the language of the Rules by replacing the current Chapter 14A (GEM Chapter 20) with the plain language Guide on the Connected Transaction Rules issued in April 2012, with minor modifications on drafting.

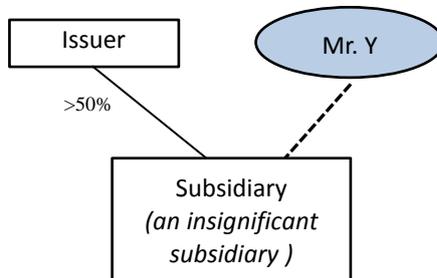
##### *Exemption for connected persons at the subsidiary level*

2. Exempt transactions with connected persons at the subsidiary level from the shareholders' approval requirement.



- Mr. X is a director or substantial shareholder of the Subsidiary.
- Transactions between the Issuer Group and Mr. X is exempt from shareholder approval requirement.

3. Exclude persons connected with insignificant subsidiaries of the issuer from the definition of connected person, rather than exempting transactions with these persons as provided under the current Rules.

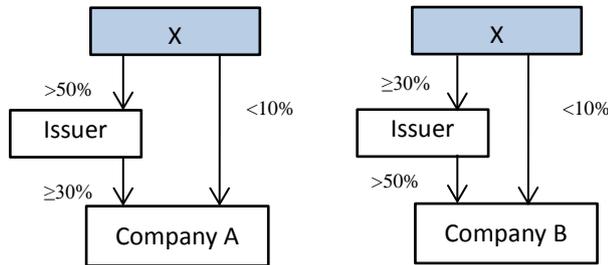


- Mr. Y is a director or substantial shareholder of the Subsidiary.
- Mr. Y is not a connected person of the Issuer so long as Subsidiary is an insignificant subsidiary.

##### *Refine the scope of associates*

4. Exclude from the definition of "associate" any trustee of an employee share scheme or occupational pension scheme if the connected persons' interests in the scheme are together less than 30 per cent; and the scheme is established for a wide scope of participants.

5. In defining a “30%-controlled company”<sup>1</sup>, exclude any company in which the connected person and his/its associate together have an interest of less than 10 per cent, other than the indirect interest held through the issuer.

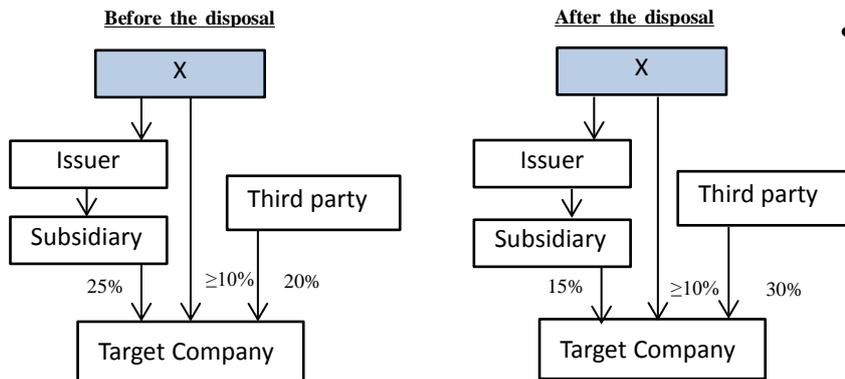


- Neither Company A nor B is an associate of X because X’s direct interest in it is less than 10%.

*Exclude certain transactions with third parties from the scope of connected transactions*

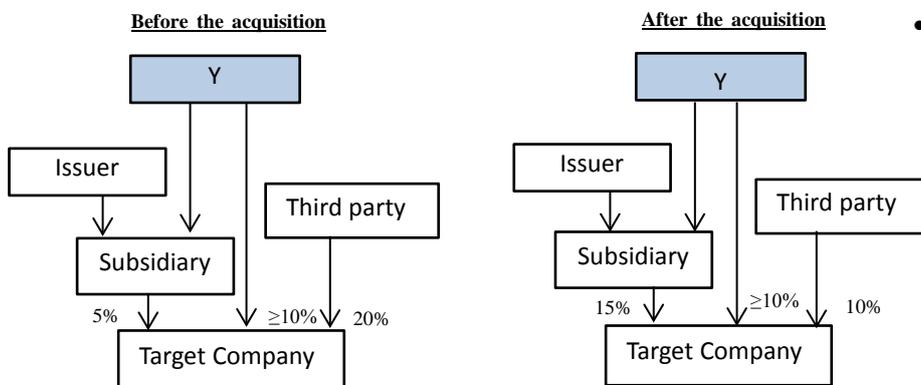
6. Exclude from the definition of connected transaction the following transactions with third parties, where a controller<sup>2</sup> is, or will be, a shareholder of the target company:

- any disposal of interests in the target company to a third party where a controller at the issuer level is the target company’s substantial shareholder;



- X is a controller of the Issuer.

- any acquisition/disposal of interests in the target company from/to a third party where a controller at the subsidiary level is the target company’s substantial shareholder; and



- Y is a controller of the Subsidiary.

- transactions with third parties described in paragraphs (ii) to (iv) of current Rule 14A.13(1)(b).

*Further exemptions from the connected transaction requirements*

7. Increase the monetary threshold for fully exempt connected transactions from HK\$1 million to HK\$3 million.
8. Remove the one per cent cap on transaction value which is currently a condition for the exemption for provision/receipt of consumer goods or services to/from a connected person.
9. Exempt indemnities provided to, or purchase of insurance for, directors against liabilities incurred in the course of performing their duties, provided that the indemnity or insurance is in the form permitted under the laws in Hong Kong and the place of incorporation of the company providing the indemnity or insurance.

*Refine or clarify the connected transaction requirements*

10. For connected transactions involving option arrangements:
  - classify the termination of an option granted by a connected person as if the option is exercised, unless the issuer has no discretion over the termination;
  - introduce alternative classification Rules for the transfer, non-exercise or termination of an option granted by a connected person.
11. Align the auditors' confirmation on continuing connected transactions with Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.
12. Clarify that the independent board committee's opinion on a connected transaction must also cover whether the transaction is on normal commercial terms and in the issuer's ordinary and usual course of business.

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1. A "30%-controlled company" means a company held by a person who can: (a) exercise or control the exercise of 30 per cent (or an amount for triggering a mandatory general offer under the Takeovers Code, or for PRC issuers only, an amount for triggering a mandatory general offer or establishing legal or management control over a business enterprise under the PRC law) or more of the voting power at general meetings; or (b) control the composition of a majority of the board of directors.
  2. A "controller" refers to a director, chief executive or controlling shareholder of the issuer or any of its subsidiaries.

## Alignment of the definitions of connected person and associate in the Rules

1. Rename the definitions of connected person and associate in Chapter 1 as “core connected person” and “close associate” respectively.
2. Apply the Chapter 14A definitions of connected person or associate in other parts of the Rules as follows:

Main Board Rules	GEM Rules	Rule requirements as amended
<b>a) Reverse takeovers</b>		
Apply the Chapter 14A definition of associate in the following Rule requirements:		
R14.06(6)(b), R14.23B(2)	R19.06(6)(b), R20.23B(2)	<ul style="list-style-type: none"> <li>Acquisition of assets from the issuer’s incoming controlling shareholder or his/its <b>associate</b> under the reverse takeover Rule.</li> </ul>
R14.92	R19.91	<ul style="list-style-type: none"> <li>Restriction of disposal of existing business by an issuer within 24 months after a change in control unless the assets acquired from the person(s) gaining such control or his/their <b>associates</b> and any other assets acquired after the change in control can meet Rule 8.05.</li> </ul>
<b>b) Significant corporate actions/ spin-offs/ directors’ service contracts</b>		
Apply the Chapter 14A definition of associate in the following Rule requirements:		
R6.12, R6.13, R7.19, R7.24, R13.36(4), R14.90, R14.91, Note to R13.39	R9.20, R9.21, R10.29, R10.29A, R10.39, R10.39A, R17.42A, R19.89, R19.90, Note to R17.47	<ul style="list-style-type: none"> <li>Any controlling shareholder (or where there is no controlling shareholder, directors and chief executive of the issuer) and its/their <b>associates</b> must abstain from voting to approve <ul style="list-style-type: none"> <li>- voluntary withdrawal of listing</li> <li>- large scale rights issue or open offer</li> <li>- refreshment of general mandate</li> <li>- transaction that would result in a fundamental change in the issuer’s principal business activities within 12 months after listing</li> </ul> </li> </ul> <p>The parties that are required to abstain from voting may vote against the resolution at the general meeting provided that their intention to do so has been disclosed.</p>
PN15 – Para 3(e)(2)	PN3- Para 3(e)(2)	<ul style="list-style-type: none"> <li>If a controlling shareholder has a material interest in a spin-off proposal, it and its <b>associates</b> must abstain from voting.</li> </ul>
R13.68	R17.90	<ul style="list-style-type: none"> <li>A director and his <b>associates</b> must abstain from voting on his service contract for a duration of more than 3 years.</li> </ul>
App14 – Para B.1.2(h)	App15 – Para B.1.2(h)	<ul style="list-style-type: none"> <li>Under the Corporate Governance Code, the remuneration committee’s terms of reference should include provision to ensure that no director or any of his <b>associates</b> is involved in deciding his own remuneration.</li> </ul>
<b>c) Granting share options to connected persons</b>		
Apply the Chapter 14A definition of associate in the following Rule requirements:		
R17.04(1), N1 to R17.04(3)(d)	R23.04(1), N1 to 23.04(3)(d)	<ul style="list-style-type: none"> <li>Requirement for independent non-executive directors to approve a grant of share options to any director, chief executive or substantial shareholder of an issuer or any of their <b>associates</b>.</li> <li>Shareholder approval requirement for granting share options to a substantial shareholder or independent non-executive directors, or any of their <b>associates</b> which exceeds the limits set out in the Rule; or any change in the terms of options granted to any such person.</li> </ul>
R17.06A, R17.07	R23.06A, R23.07	<ul style="list-style-type: none"> <li>Requirements to disclose information relating to share options granted to a director, chief executive or substantial shareholder of the issuer or any of their <b>associates</b>.</li> </ul>
Add new provisions in the following Rules to specify that the Chapter 14A definition of associate will apply if the grantee is a connected person under Chapter 14A		
R17.03(4), R17.04(1)	R23.03(4), R23.04(1)	<ul style="list-style-type: none"> <li>Where the grantee is a connected person under Chapter 14A, the grantee and his <b>associates</b> will need to abstain from voting to approve the grant of options.</li> </ul>

Main Board Rules	GEM Rules	Rule requirements as amended
<b>d) Independence of sponsors</b>		
Introduce a new Rule 3A.07(3A) where the Chapter 14A definition of connection person will apply :		
R3A.07(3A)	R6A.07(3A)	<ul style="list-style-type: none"> <li>Sponsor to confirm whether it is a <b>connected person</b> of the new applicant.</li> </ul>
Apply the Chapter 14A definition of associate in the following Rule requirement:		
R3A.05	R6A.05	<ul style="list-style-type: none"> <li>A new applicant and its directors must assist the sponsor to perform its role and must ensure that its substantial shareholders and <b>associates</b> also assist the sponsor.</li> </ul>
<b>e) Independence of independent financial advisers (IFAs)</b>		
Introduce new Rules 13.84(1A) and 13.84(2A) where the Chapter 14A definition of associate will apply:		
R13.84(1A)	R17.96(1A)	<ul style="list-style-type: none"> <li>In the case of a connected transaction, the IFA to confirm whether it holds more than 5% of the issued share capital of an <b>associate</b> of another party to the transaction.</li> </ul>
R13.84(2A)	R17.96(2A)	<ul style="list-style-type: none"> <li>In the case of a connected transaction, the IFA to confirm whether it is an <b>associate</b> of another party to the transaction.</li> </ul>
<b>f) Others</b>		
<b>i) Transactions</b>		
Apply the Chapter 14A definition of connected person and/or associate in the following Rule requirements:		
R14.58(3), R14.63(3)	R19.58(4), R19.63(3)	<ul style="list-style-type: none"> <li>Issuer to disclose in the announcement and circular of a transaction that the counterparty and the ultimate beneficial owner of the counterparty are third parties independent of the issuer and its <b>connected persons</b>.</li> </ul>
R5.03, PN12- Para 15	R8.03	<ul style="list-style-type: none"> <li>Requirements for valuation of property interests acquired from a <b>connected person</b>.</li> <li>Disclosure in the valuation report if the valuer has relied on information provided by a <b>connected person</b> in a connected transaction.</li> </ul>
R21.08(12)	N/A	<ul style="list-style-type: none"> <li>A listing document of a new applicant investment company to contain a statement as to whether the directors of the investment company, the management company, any investment adviser or any distribution company, or any <b>associate</b> of any of those persons, is or will become entitled to receive any part of any brokerage charged to the investment company, or any re-allowance of other types on purchases charged to the investment company.</li> </ul>
<b>ii) Issues of securities</b>		
Apply the Chapter 14A definition of connected person and/or associate in the following Rule requirements:		
R7.21(2), R7.26A(2)	R10.31(2), R10.42(2)	<ul style="list-style-type: none"> <li>Shareholder approval requirements for a rights issue or open offer underwritten by a director, chief executive or substantial shareholder of the issuer (or an <b>associate</b> of any of them) if there is no arrangement for excess applications.</li> </ul>
N1 to R13.36(2)(b), R19A.38	Note to R17.41(2), N1 to R25.23	<ul style="list-style-type: none"> <li>Any issue of securities by an issuer to a <b>connected person</b> under a general mandate is permitted only if it complies with Chapter 14A.</li> </ul>
PN4 - Para 4(c)	R21.07(3)	<ul style="list-style-type: none"> <li>For a proposal to issue new warrants to existing warrant holders or to change the exercise period or exercise price of existing warrants, the Exchange has the right to require that any <b>connected person</b> of the issuer who holds more than 10% of the outstanding existing warrants to abstain from voting.</li> </ul>
<b>iii) Persons to abstain from voting in connected transactions</b>		
Add a note in the following Rules to specify that the Chapter 14A definition of associate will apply if the subject matter is a connected transaction under Chapter 14A:		
R2.16	R2.27	<ul style="list-style-type: none"> <li>In the case of a connected transaction, the Chapter 14A definition of associate will apply when determining whether a shareholder or any of his <b>associates</b> has a material interest in the transaction.</li> </ul>
R13.44	R17.48A	<ul style="list-style-type: none"> <li>In the case of a connected transaction, a director of the issuer must not vote on any board resolution approving the transaction in which he or any of his <b>associates</b> has a material interest.</li> </ul>

Main Board Rules	GEM Rules	Rule requirements as amended
<i>iv) Depositary</i>		
Clarify in the following Rule that a depositary shall not be regarded as an associate as defined in Chapter 14A or a close associate as defined in Chapter 1:		
R19B.03	N/A	<ul style="list-style-type: none"> <li>• A depositary shall not be: (a) an “<b>associate</b>” or “<b>close associate</b>”; (b) ..., merely by reason of the fact that it is holding shares of an issuer as depositary for the benefit of depositary receipt holders.</li> </ul>