

Definition of transactions and calculation of percentage ratios for notifiable transactions

Acquisition or disposal of assets (including deemed disposals)

1. For an acquisition of fixed assets (e.g. equipment and machinery),
 - (i) how should a listed issuer calculate the assets ratio if the book value of the assets to the vendor is unknown?
- (ii) how should the listed issuer calculate the profits and revenue ratios if the assets do not have an identifiable income stream historically?

The numerator of the assets ratio should be the consideration payable together with liabilities assumed (if any).

The profits and revenue ratios are not applicable in this case.

*MB Rules 14.07(1), (2) and (3)
GEM Rules 19.07(1), (2) and (3)
First released: March 2004; last updated: May 2024*

2. How should a listed issuer calculate the percentage ratios in an acquisition or disposal of equity interest in a company that is classified as an investment?

The listed issuer may apply alternative percentage ratios under the Listing Rules as follow:

- For the assets ratio, the fair value of the equity interest (determined in accordance with the applicable accounting standards adopted by the listed issuer) may be used as the numerator.
- For the profits and revenue ratios, the listed issuer may make reference to the dividend declared by the target company and any dividend policy established by the company.

*MB Rules 14.07(1), (2) and (3), 14.20 and 14.28
GEM Rules 19.07(1), (2) and (3), 19.20 and 19.28
First released: March 2004; last updated: May 2024*

3. Does the revenue exemption under MB Rule 14.04(1)(g) / GEM Rule 19.04(1)(g) apply to trading of securities carried out by a listed issuer for treasury management purposes?

No. The revenue exemption applies only to securities transactions carried out by any member of a listed issuer's group that is (i) a banking company; (ii) an insurance company; or (iii) a securities house that is mainly engaged in regulated activities under the Securities and Futures Ordinance.

*MB Rule 14.04(1)(g)
GEM Rule 19.04(1)(g)*

First released: September 2019; last updated: May 2024

4. Is the placing of new shares or treasury shares under general mandate by a listed subsidiary a transaction for the listed parent under the Listing Rules?

Yes. It would be a deemed disposal for the listed parent as it would result in a reduction in the equity interest held by the listed parent in the subsidiary.

Where the deemed disposal constitutes a major transaction or above, the placing is subject to approval by the listed parent's shareholders. In these circumstances, the listed parent should put in place appropriate procedures and mechanism to ensure compliance with the Listing Rules.

*MB Rules 14.04(1)(a) and 14.29
GEM Rules 19.04(1)(a) and 19.29*

First released: November 2008; last updated: June 2024

5. A subsidiary of a listed issuer proposes to adopt a scheme for granting share awards and options to participants of the scheme.

(i) Which percentage ratios apply for classifying the disposal of the listed issuer's interests in the subsidiary from the grants of awards and options under the scheme?

The disposal will be classified using the assets, revenue, profits and consideration ratios calculated based on the size of the scheme mandate, i.e., the maximum number of shares of the subsidiary that may be issued or transferred out of treasury in respect of awards and options to be granted under such mandate.

(ii) Which figure should be used as the numerator for calculating the consideration ratio?

The listed issuer should use the higher of (a) the fair value of the consideration (i.e. the grant price of share awards or the exercise price of share options); and (b) the fair value of the interests of the subsidiary to be disposed of (see MB Rule 14.15(1) / GEM Rule 19.15(1)).

*MB Rules 14.32A and 14.15(1)
GEM Rules 19.32A and 19.15(1)*

First released: July 2022; last updated: June 2024

6. **Does it constitute an acquisition of assets under MB Rule 14.04(1)(a) / GEM Rule 19.04(1)(a) if a listed issuer subscribes for wealth management products with fixed or guaranteed returns offered by financial institutions?**

Subscriptions of wealth management products classified as financial assets on the listed issuer's financial statements constitute acquisitions of assets under MB Rule 14.04(1)(a) / GEM Rule 19.04(1)(a).

For the avoidance of doubt, a transaction under MB Chapter 14 / GEM Chapter 19 normally does not include acquisition of investments classified as cash equivalents on the listed issuer's financial statements or placement of time deposits with a bank regardless of how it is accounted for.

*MB Rule 14.04(1)
GEM Rule 19.04(1)
First released: May 2024*

Formation of joint venture

7. **Does the term “joint venture entity” under MB Rule 14.04(1)(f) / GEM Rule 19.04(1)(f) refer only to an entity which will be accounted for as a jointly controlled entity in the accounts of the listed issuer concerned?**

No. The term “joint venture entity” under MB Rule 14.04(1)(f) / GEM Rule 19.04(1)(f) may refer to any entity in any form which is to be established by a listed issuer and any other party / parties.

*MB Rule 14.04(1)(f)
GEM Rule 19.04(1)(f)
First released: November 2008; last updated: May 2024*

8. (i) **How should a listed issuer calculate the percentage ratios for a formation of joint venture?**

For the assets and consideration ratios, the numerator will be the consideration determined with reference to MB Rule 14.15(2) / GEM Rule 19.15(2). The profits and revenue ratios are normally not applicable as the joint venture entity would be newly formed with no track record.

- (ii) **If the joint venture partner proposes to inject its assets (other than cash) as capital contribution, is the asset injection a transaction under the Listing Rules?**

If the joint venture entity would be consolidated into the listed issuer's accounts as a subsidiary, the asset injection by the joint venture partner into the joint venture entity would constitute an acquisition of such assets by the listed issuer and is a transaction under the Listing Rules.

*MB Rules 14.04(1)(f), 14.07(1), (2) and (3), 14.15(2)
GEM Rules 19.04(1)(f), 19.07(1), (2) and (3), 19.15(2)
First released: November 2008; last updated: May 2024*

Leases where the listed issuer is the lessee

9. A listed issuer recognises a lease with fixed lease payments as a right-of-use asset under HKFRS / IFRS 16.

(i) How should the listed issuer classify the lease under the definition of transaction under the Listing Rules?

The lease should be classified as an acquisition of asset (being the right to use the underlying lease asset).

(ii) Do MB Rules 14.04(1)(c) or 14.04(1)(d) / GEM Rules 19.04(1)(c) or 19.04(1)(d) (finance lease or operating lease) apply?

No, as the listed issuer is the lessee.

(iii) Does the revenue exemption under MB Rule 14.04(1)(g) / GEM Rule 19.04(1)(g) apply to the lease?

No. The transaction is of a capital nature.

(iv) How should the listed issuer calculate the percentage ratios?

The assets and consideration ratios apply. The numerator will be the value of the right-of-use asset recognised by the listed issuer (which includes the present value of lease payments) according to HKFRS / IFRS 16.

*MB Rules 14.04(1)(a), 14.04(1)(c), 14.04(1)(d), 14.04(1)(g),
14.07, 14.22, 14.23, 14A.24(1), 14A.24(3) and 14A.31
GEM Rules 19.04(1)(a), 19.04(1)(c), 19.04(1)(d), 19.04(1)(g),
19.07, 19.22, 19.23, 20.22(1), 20.22(3) and 20.29
First released: September 2018; last updated: May 2024*

10. The lease payments include (i) a fixed dollar amount (fixed lease payments); and (ii) a variable amount determined as a percentage of the listed issuer's annual sales generated from the leased properties (variable lease payments).

Under HKFRS / IFRS 16, the listed issuer will recognise a right-of-use asset taking into account the fixed lease payments. The actual variable lease payments linked to sales will be recognised as expenses in the listed issuer's profit or loss accounts over the lease term.

How should the listed issuer calculate the percentage ratios for the lease?

The value of the right-of-use asset based on the fixed lease payments should be used as numerator of the assets and consideration ratios. The variable lease payments linked to sales will be expenses incurred by the listed issuer in its ordinary and usual course of business and will not form part of the percentage ratios calculation.

(Note: There are other types of variable lease payments (e.g. variable lease payments depending on an index or rate) that are included in the initial measurement of right-of-use asset under HKFRS / IFRS 16. The treatment would be the same as fixed lease payments for the purpose of the Listing Rules).

*MB Rules 14.04(1)(a), 14.07, 14A.24(1), 14A.31
GEM Rules 19.04(1)(a), 19.07, 20.22(1) and 20.29
First released: December 2018; last updated: May 2024*

11. **Is the termination of a lease before its expiry by a listed issuer a transaction under the Listing Rules? How should the listed issuer calculate the percentage ratios for the termination?**

Yes. As the early termination will result in a decrease in the amount of right-of-use asset recognised by the listed issuer, it is a disposal of asset under the Listing Rules.

The listed issuer should calculate the assets ratio based on the value of the remaining right-of-use asset and the consideration ratio based on the penalty or fee, if any, payable by the listed issuer for terminating the lease.

*MB Rules 14.04(1)(a) and 14.07
GEM Rules 19.04(1)(a) and 19.07
First released: April 2020; last updated: May 2024*

Leases where the listed issuer is the lessor

12. Is entering into an operating lease or a finance lease a transaction under the Listing Rules? How should a listed issuer calculate the percentage ratios for a finance lease?

Yes, if it meets the circumstances described in MB Rules 14.04(1)(c) or 14.04(1)(d) / GEM Rules 19.04(1)(c) or 19.04(1)(d).

For a finance lease, the listed issuer should calculate the percentage ratios for the disposal and the provision of financial assistance and classify the finance lease based on the highest percentage ratio.

*MB Rules 14.04(1)(c), 14.04(1)(d) and 14.07
GEM Rules 19.04(1)(c), 19.04(1)(d) and 19.07
First released: September 2018; last updated: May 2024*

Sale and leaseback transactions

13. Listed Issuer A entered into a sale and leaseback transaction by transferring the legal ownership of an asset to Listed Issuer B and leasing the asset back with an option to buy back the asset at the end of the lease period. Is this a transaction for Listed Issuer A and Listed Issuer B under the Listing Rules?

According to HKFRS / IFRS 16, the transaction will be accounted for as a financing arrangement by each of Listed Issuer A and Listed Issuer B (and not a sale and leaseback transaction).

In the circumstances described, the transfer of the legal ownership of the asset constitutes a disposal of asset by Listed Issuer A and an acquisition of asset by Listed Issuer B under the MB Rule 14.04(1)(a) / GEM Rule 19.04(1)(a).

For Listed Issuer B, the transaction is also a provision of financial assistance.

*MB Rules 14.04(1)(a) and 14.04(1)(e)
GEM Rules 19.04(1)(a) and 19.04(1)(e)
First released: September 2018; last updated: May 2024*

Financial assistance

14. How should a listed issuer calculate the revenue and profits ratios when it provides financial assistance to a third party?

The numerator of the revenue and profits ratios should be the annual amount of any identifiable income arising from the financial assistance (e.g. interest income).

*MB Rule 14.07
GEM Rule 19.07
First released: December 2009; last updated: May 2024*

15. Is a cash deposit made to a connected person (a finance company approved by regulatory authorities) a notifiable and connected transaction?

Yes. It is a provision of financial assistance by the listed issuer to the connected person.

MB Rules 14.04(1)(e) and 14A.24(4)

GEM Rules 19.04(1)(e) and 20.22(4)

First released: February 2013; last updated: May 2024

16. A listed issuer proposes to subscribe for a convertible bond. The bond may be convertible into shares of the bond issuer at the sole discretion of the listed issuer.

(i) Is the subscription of the convertible bond a transaction under the Listing Rules?

Yes, it constitutes provision of financial assistance to the bond issuer.

(ii) Is the exercise of the conversion rights a transaction under the Listing Rules? If yes, can the listed issuer seek shareholders' approval for the conversion at the time of subscription of the bond?

Yes, the conversion would result in an acquisition of shares and is a transaction under the Listing Rules. The listed issuer may seek shareholders' approval for the conversion at the time of subscription of the convertible bonds, provided that it can provide information to its shareholders to assess the transaction.

MB Rule 14.07

GEM Rule 19.07

First released: December 2009; last updated: June 2024

17. A listed issuer proposes to grant a loan to its substantial shareholder who has also provided a loan to the listed issuer. Can the loans to and from the substantial shareholder be netted off when calculating the percentage ratios for the financial assistance?

No. The proposed loan should be classified on a standalone basis.

MB Rules 14.07 and 14A.87

GEM Rules 19.07 and 20.87

First released: May 2021; last updated: May 2024

Right of first refusal

- 18. A joint venture agreement grants the joint venture parties a right of first refusal in the event the other joint venture partner(s) disposes of its interest in the joint venture. Is the grant of the right of first refusal by / to the listed issuer a transaction under the Listing Rules?**

No. A right of first refusal is not a transaction under the Listing Rules given (i) no consideration is payable for the right; and (ii) the listed issuer will have the discretion on whether to acquire or dispose the joint venture interest when the right is exercised.

If the listed issuer or the joint venture partner exercises the right of first refusal, the disposal or acquisition (as the case may be) by the listed issuer will be a transaction under the Listing Rules.

MB Rule 14.04(1)

GEM Rule 19.04(1)

First released: December 2009; last updated: May 2024

Other corporate actions

- 19. Is a voluntary liquidation of a subsidiary by a listed issuer a transaction under the Listing Rules?**

No. However, the liquidation process may involve transactions (such as disposal of the subsidiary's assets) which would constitute transactions for the listed issuer.

MB Rule 14.04(1)

GEM Rule 19.04(1)

First released: December 2009; last updated: May 2024

- 20. Is a forced sale of property by a listed issuer pursuant to a court order a transaction under the Listing Rules?**

No, as the listed issuer is bound to follow the court order and has no discretion to act in a different manner.

MB Rule 14.04(1)(a)

GEM Rule 19.04(1)(a)

First released: December 2009; last updated: May 2024

Assets, profits and revenue ratios

21. (i) How should the total assets be adjusted if a dividend with a scrip alternative is proposed by a listed issuer?

A scrip dividend has no impact on total assets and no adjustment is required. However, if the number of scrip shares to be issued and / or transferred out of treasury is not known at the time of the transaction, the listed issuer should assume that the entire dividend is paid in cash when adjusting the total assets.

(ii) How should the total assets be adjusted if a dividend is proposed by a non-wholly owned subsidiary of the listed issuer?

If the dividend is proposed by a non-wholly owned subsidiary of the listed issuer, adjustment to total assets should be made to the extent that the total consolidated assets will be reduced by the dividend payable to non-controlling interests by the subsidiary.

MB Rule 14.16(1)

GEM Rule 19.16(1)

First released: March 2004; last updated: June 2024

22. Should a listed issuer's profits and revenue figures exclude the results of a major subsidiary that had been disposed of by the listed issuer after the year end?

Under MB Rule 14.17 / GEM Rule 19.17, the Exchange may be prepared to accept the exclusion of profits and revenue from the subsidiary that have been separately disclosed as discontinued operations in the listed issuer's accounts.

If the disposal does not fall under MB Rule 14.17 / GEM Rule 19.17 and the profits and / or revenue ratios produce an anomalous result, the listed issuer may consult the Exchange (or the Exchange may require) on the application of MB Rule 14.20 / GEM Rule 19.20.

MB Rules 14.07(2) and (3), 14.17 and 14.20

GEM Rules 19.07(2) and (3), 19.17 and 19.20

First released: November 2008; last updated: May 2024

23. Can a listed issuer use the total assets shown in its latest published unaudited quarterly results?

Although MB Rule 14.16 / GEM Rule 19.16 makes no reference to quarterly accounts, a listed issuer may use the total assets figure from its latest published quarterly results if it has adopted quarterly reporting (as recommended by the Corporate Governance Code set out in Appendix C1 to the MB Rules and GEM Rules).

MB Rules 14.04(2), 14.07(1), 14.16 and App C1

GEM Rules 19.04(2), 19.07(1), 19.16 and App C1

First released: November 2008; last updated: May 2024

24. Can a listed issuer use the profits and revenue figures shown in its latest published audited interim accounts?

No, a listed issuer should use the figures shown in its latest published audited accounts for the full financial year.

*MB Rules 14.04(2) and 14.17
GEM Rules 19.04(2) and 19.17*

First released: November 2008; last updated: May 2024

25. Can a listed issuer use the total assets, profits and revenue figures shown in its preliminary results announcement if it has not yet published the relevant annual report?

Yes, if a listed issuer has published a preliminary results announcement based on its audited financial statements and its accounts have been agreed with the auditors. In rare circumstances, where any such figures need to be revised in the audited accounts subsequently available, the listed issuer should re-compute the relevant percentage ratios and re-comply with any additional requirements if the proposed transaction results in a higher classification.

*MB Rules 14.04(2), 14.16 and 14.17
GEM Rules 19.04(2), 19.16 and 19.17*

First released: November 2008; last updated: May 2024

26. Is it necessary to annualise the revenue and profits of the listed issuer or the target company if (i) the latest audited accounts of the listed issuer cover a period of 18 months (due to a change in financial year end date); or (ii) the acquisition target commenced operation for less than one year?

No, the Listing Rules require a listed issuer to calculate the revenue and profits ratio based on figures shown in the accounts of the listed issuer and the target company.

However, if the profits and/or revenue ratios produce an anomalous result, the Exchange may exercise its discretion under MB Rule 14.20 / GEM Rule 19.20 and accept alternative size tests based on annualised revenue and profits. Listed issuers should consult the Exchange if it proposes to adopt alternative size tests.

*MB Rules 14.04(2), 14.07(2) and (3), 14.17 and 14.20
GEM Rules 19.04(2), 19.07(2) and (3), 19.17 and 19.20*

First released: November 2008; last updated: May 2024

27. Which figure should a banking company use as the denominator of the revenue ratio?

Net interest income plus other operating income. Operating income ~~is as defined~~ shall have the same meaning as in the FD-1: Financial Disclosure by Locally Incorporated Authorized Institutions in the Supervisory Policy Manual Banking (Disclosure) Rules, Chapter 155M of the laws of Hong Kong issued by the Hong Kong Monetary Authority.

*MB Rules 14.07(3) and 14.14
GEM Rules 19.07(3) and 19.14*

First released: March 2004; last updated: ~~May~~September 2024

Consideration ratio

28. How should a listed issuer calculate the market capitalisation if it has preference shares and warrants?

The market capitalisation should be calculated based on the total number of ordinary shares in issue (excluding treasury shares) of the listed issuer, excluding preference shares and warrants.

MB Rule 14.07(4)

GEM Rule 19.07(4)

First released: March 2004; last updated: June 2024

29. How should a PRC issuer calculate the market capitalisation if its domestic shares are quoted on NEEQ?

The market capitalisation should be calculated based on the PRC issuer's total number of shares in issue including H shares and domestic shares but excluding treasury shares, multiplied by the average closing price of its H shares for the 5 ~~trading~~ days preceding the date of the transaction and during which trading of its shares could be conducted on NEEQ.

MB Rules 14.07(4) and 19A.38A

GEM Rules 19.07(4) and 25.34C

First released: September 2019; last updated: ~~September~~ June 2024

30. How should a listed issuer calculate the consideration ratio for an acquisition if the consideration includes (i) a fixed amount of cash; and (ii) an additional amount that may be payable upon occurrence of certain future events?

The numerator of the consideration ratio should include the fixed amount of cash and the maximum value of the additional consideration that may be paid by the listed issuer in the future. If the total consideration is not subject to a maximum or such maximum value cannot be determined, the proposed acquisition will normally be classified as a very substantial acquisition.

MB Rule 14.15(4)

GEM Rule 19.15(4)

First released: November 2008; last updated: May 2024

Equity capital ratio

31. Is a listed issuer required to calculate the equity capital ratio if the consideration for an acquisition is satisfied by shares of its subsidiary?

No, as the equity capital ratio applies only to a transaction involving an issue of equity capital and / or a transfer of treasury shares of the listed issuer as consideration.

MB Rule 14.07(5)

GEM Rule 19.07(5)

First released: December 2009; last updated: June 2024

Alternative percentage ratios

32. Can a listed issuer calculate the size tests on a net basis if it transfers assets from a wholly-owned subsidiary to a non-wholly owned subsidiary?

Where the proposed transaction (effectively a group restructuring) involves a disposal of assets by one subsidiary and an acquisition of the same assets by another subsidiary, calculations of the percentage ratios on a gross basis may produce an anomalous result for the purpose of classifying the transaction. The Exchange may accept alternative size tests calculated based on the net disposal of the listed issuer's interest in the assets.

Please see [Listing Decision HKEX-LD62-2](#) for a case involving an intra-group transfer under a proposed group reorganisation. The Exchange accepted alternative size tests based on the net effect of the disposal in that case.

*MB Rules 14.04(1)(a) and 14.20
GEM Rules 19.04(1)(a) and 19.20
First released: November 2008; last updated: May 2024*

33. How should a listed issuer calculate the profits ratio if it has incurred a net loss in the latest financial year?

The profits ratio is not applicable in this case as the listed issuer was loss making. The listed issuer should provide alternative test(s) in respect of the profits ratio (such as a gross profit comparison) for the Exchange's consideration.

*MB Rules 14.07(2) and 14.20
GEM Rules 19.07(2) and 19.20
First released: March 2004; last updated: May 2024*