

Amendments to Connected Transaction Rules (effective 3 June 2010)

Status of “Frequently Asked Questions”

The following frequently asked questions (FAQs) are designed to help issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our “answers”, we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Division may be consulted on a confidential basis. Contact the Listing Division at the earliest opportunity with any queries.

No.	Main Board Rules	GEM Rules	Query	Response
<u>Insignificant subsidiary exemption</u>				
1.	14A.31(9)(b)14A.09	20.31(9)(b)20.08	An issuer has completed a placing of new shares. When it assesses whether a subsidiary is “insignificant” under this Rule, does it need to adjust the assets ratio for the proceeds from the placing?	No. The issuer should use the total assets shown in its group’s audited accounts for the financial year(s) set out in the Rule without adjustments. <i>Note: Rule reference updated in July 2014.</i>
2.	14A.31(9)(b)14A.09	20.31(9)(b)20.08	An issuer acquired a majority interest in Company A a few months ago. When assessing whether Company A is an “insignificant subsidiary” under this Rule, can the issuer refer to Company A’s total assets, profits and revenue for the period after the date of acquisition?	No. The assessment should be based on the latest financial year / three financial years described in the Rule, which may include Company A’s financials before the date of acquisition. <i>Note: Rule reference updated in July 2014.</i>
3.	14A.31(9)(b)14A.09	20.31(9)(b)20.08	An issuer has recently formed a joint venture with a third party. The joint venture is a non wholly-owned subsidiary of the issuer but it has yet to publish its first accounts. Can the issuer apply the	The exemption may apply to a newly established subsidiary even though it does not have a full year of accounts. The issuer may propose alternative size tests to assess the subsidiary’s materiality.

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			insignificant subsidiary exemption? If yes, how will the percentage ratios be calculated?	<p>In the circumstances described, it would normally be acceptable for the issuer to compute an alternative assets ratio based on its total capital commitment in the joint venture. The profits and revenue ratios would be inapplicable as the joint venture is newly set up. The issuer should consult the Exchange.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
4.	14A.31(9)(b) 14A.09	20.31(9)(b) 20.08	When assessing whether a subsidiary is “insignificant” under this Rule, can the issuer change from the three year test to the one year test (or vice versa) from time to time?	<p>Yes. Both tests are meant to measure the materiality of a subsidiary.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
5.	14A.31(9)(b)(i) 14A.09	20.31(9)(b)(i) 20.08	Can the issuer apply the “anomalous test” if there are fluctuations in the subsidiary’s results over the three years, for example due to exceptional performance in a particular year?	<p>The “anomalous test” will not apply in the circumstances described. This is because the “anomalous test” addresses circumstances where a particular percentage ratio is out of line with the others or does not reflect the subsidiary’s materiality.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>

No.	Main Board Rules	GEM Rules	Query	Response
5A.	14A.31(9) 14A.07(2) 14A.09	20.31(9) 20.07(2) 20.08	<p>A month ago, Listco sold its entire interest in its subsidiary, Company A.</p> <p>Mr. X is a connected person of Listco under Rule 14A.07(2) because of his directorship in Company A before the disposal. He has no other relationship with Listco group.</p> <p>Can Listco apply the insignificant subsidiary exemption to its proposed transactions with Mr. X?</p>	<p>Yes, if Company A was “insignificant” under Rule 14A.31(9) at the time when it ceased to be a subsidiary of Listco.</p> <p><i>Notes:</i></p> <p><u>1. (Added in 17 September 2010)</u></p> <p><u>2. Rule reference updated in July 2014.</u></p>
<u>Insignificant subsidiary exemption / passive investor exemption for continuing connected transactions</u>				
6.	14A.33(4) , 14A.33(5) 14A.09, 14A.60, 14A.99, 14A.100	20.33(4) , 20.33(5) 20.08, 20.58, 20.97, 20.98	<p>Listco wishes to apply the “insignificant subsidiary exemption” (or the “passive investor exemption”) to the following continuing connected transactions with Company X:</p> <p>(a) Listco proposes to purchase raw materials from Company X on a recurring basis. Company X currently meets</p>	<p>(a)(i) A framework agreement is not required if the purchases are exempt under the Rule.</p> <p>(a)(ii) No. The framework agreement is not an agreement with fixed terms. If Company X no longer meets the conditions for the exemption within the three year period, Listco must comply with all applicable connected</p>

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			<p>the conditions for the exemption.</p> <p>(i) Do they need to enter into a framework agreement for these purchases?</p> <p>(ii) If they now enter into a framework agreement for the purchases for say 3 years, does it mean that all purchases conducted under this agreement are exempt?</p> <p>(b) Listco also enters into an agreement with Company X to lease an office building with fixed terms for 3 years. If Company X no longer meets the conditions for the exemption after one year, will Listco need to comply with the connected transaction Rules?</p>	<p>transaction Rules for its subsequent purchases from Company X.</p> <p>(b) Listco is only required to comply with the reporting, annual review and announcement requirements immediately upon it becoming aware of this fact.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
7.	14A.33(4) 14A.09	20.33(4) <u>20.08</u>	<p>Listco has entered into an agreement to lease a property to Mr. X, a director of a Listco subsidiary, with fixed terms for 3 years.</p> <p>At the time of the lease agreement,</p>	<p>Listco may announce that it will apply the exemption to the lease after 1 year. Reporting and annual review of the lease will not be required as long as Mr. X meets the conditions for the exemption. If Mr. X no longer qualifies for the exemption, Listco must</p>

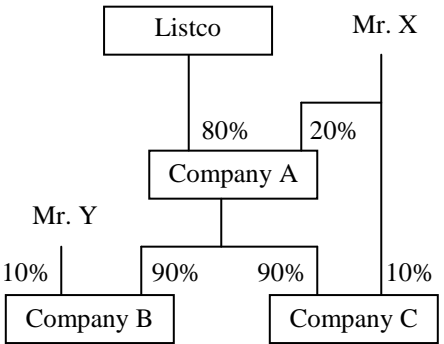
No.	Main Board Rules	GEM Rules	Query	Response
			<p>the subsidiary is not “insignificant” and Mr. X does not meet the conditions for the exemption. Listco has complied with the applicable connected transaction requirements.</p> <p>If after 1 year, Mr. X meets the conditions for the exemption, is Listco still required to comply with the reporting and annual review requirements for the remaining term of the lease agreement?</p>	<p>comply with the announcement, reporting and annual review requirements for the remaining term of the lease.</p> <p>Alternatively, Listco may continue to comply with the reporting and annual review requirements for the lease in the next 2 years. If it does this, it will not be required to re-comply with the announcement requirement if Mr. X no longer qualifies for the exemption.</p> <p><i>Notes: †</i></p> <p><i>1. Amended in 17-September 2010.‡</i></p> <p><i>2. Rule reference updated in July 2014.</i></p>
8. _____	<u>(FAQ withdrawn on 1 July 2014)</u>			
8. _____	14A.33(4), 14A.33(5)	20.33(4), 20.33(5)	Before the Rule amendments Listco entered into a framework agreement for continuing connected transactions, for example, selling products to a connected person. They are subject to annual review;	(a) Listco may apply the exemption to the transactions after the Rule amendments if the connected person qualifies for the exemption at the time of each transaction. Listco should consult the Exchange and announce that it will apply the

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			<p>reporting, announcement and shareholder approval requirements.</p> <p>(a) Can Listco apply the “insignificant subsidiary exemption” (or “passive investor exemption”) to the transactions after the Rule amendments?</p> <p>(b) If the answer to (a) is yes and the connected person has met the conditions for the exemptions since 1 January 2010, does Listco have to comply with the reporting and annual review requirements for the transactions conducted before the Rule amendments (i.e. from 1 January to 2 June 2010) when it prepares its annual report for year ending 31 December 2010?</p>	<p>exemption to the transactions.</p> <p>(b) No.</p> <p>(Amended in 17 September 2010)</p>
<u>De minimis exemptions</u>				
9.	14A.31(2)(b) 14A.76(1)(b)	20.31(2)(b) 20.74(1)	Subsidiary A is 80% owned by Listco and 20% owned by a director of Listco.	No. Paragraph (b) of the Rule applies to transactions involving connected persons at the subsidiary level only.

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			Does the new threshold of 1% under paragraph (b) of the Rule apply to a transaction between Listco and Subsidiary A?	Subsidiary A does not qualify for the exemption because it is connected by virtue of Listco's director's 20% interest in it. <i>Note: Rule reference updated in July 2014.</i>
<u>10.</u>	<u>(FAQ withdrawn on 1 July 2014)</u>			
10.	14A.32(1)	20.32(1)	<p>Before the Rule amendments Listco has entered into an agreement to acquire a target from a connected person. As some percentage ratios exceed 2.5%, the connected transaction is subject to the shareholder approval requirement.</p> <p>The general meeting for approving the transaction has yet to be held when the Rule amendments become effective. If all the percentage ratios are less than 5%, can Listco apply the de minimis exemption from shareholder approval requirement under this new Rule?</p>	No. Listco should comply with the connected transaction requirements applicable at the time of entering into the transaction.

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10A.	(FAQ withdrawn on 1 July 2014)			
10A.	14A.32(1)	20.32(1)	<p>In January 2010, Listero entered into an agreement with a connected person at the subsidiary level for some continuing transactions in the three years ending 31 December 2012. They are subject to the annual review, reporting and announcement requirements.</p> <p>After the Rule amendments, can Listero apply the new de minimis threshold of 1% to exempt the transactions under this agreement? If yes, does Listero have to comply with the reporting and annual review requirements for the transactions conducted before the Rule amendments (i.e. from 1 January to 2 June 2010) when it prepares its annual report for year ending 31 December 2010?</p>	<p>Listero may announce that it will apply the exemption to these transactions.</p> <p>Reporting and annual review of the transactions conducted in year 2010 will not be required in Listero's next annual report if the percentage ratios of these transactions are, in aggregate, less than 1%.</p> <p>(Added in 17 September 2010)</p>
	<u>Exemption for provision of consumer goods or consumer services</u>			
11.	14A.31(7) 14A.97(2)(b)	20.31(7) 20.95(2)(b)	The new Rule allows an issuer to acquire consumer goods or	It would depend on individual cases. For example, the price labels / price

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			<p>services in connection with its business provided that there is an open market and transparency in the pricing of the goods or services.</p> <p>How does the issuer determine whether there is a “transparency in the pricing of the goods or services”?</p>	<p>lists are on display at retail stores or the prices are published or publicly quoted.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
<u>Extended definition of associate</u>				
12.	<p>14A.11(4)(b) 14A.12(2)(b)</p>	<p>20.11(4)(b) 20.10(2)(b)</p>	<p>Mr. X is a director of Listco. Company A is 20% owned by Mr. X and 40% owned by his son.</p> <p>Is a transaction between Listco and Company A a connected transaction?</p>	<p>Yes. Since Mr. X and his son together have a majority control over Company A, Company A is Mr. X’s associate and the transaction is a connected transaction for Listco.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
13.	<p>14A.11(4)(e) 14A.21, 14A.22</p>	<p>20.11(4)(e) 20.19, 20.20</p>	<p>Mr. X is a director of Listco. Mr. Y is the Mr. X’s nephew.</p> <p>Company A is 20% owned by Mr. X and 40% owned by Mr. Y. Is a transaction between Listco and Company A a connected</p>	<p>Yes. Normally, the Exchange would aggregate the interests of Mr. X and Mr. Y in Company A and treat Company A as a connected person for the transaction. Listco should consult the Exchange.</p>

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			transaction?	<i>Note: Rule reference updated in July 2014.</i>
<u>Non wholly-owned subsidiary</u>				
14.	14A.31(1A) <u>14A.17</u>	20.31(1A) <u>20.15</u>	<p>Companies A, B and C are non-wholly owned subsidiaries of Listco.</p>  <pre> graph TD Listco -- 80% --> CompanyA[Company A] MrX[Mr. X] -- 20% --> CompanyA CompanyA -- 90% --> CompanyB[Company B] CompanyA -- 90% --> CompanyC[Company C] MrY[Mr. Y] -- 10% --> CompanyB </pre> <p>Mr. X is a director of Listco. Mr. Y is not a connected person at the Listco's level.</p> <p>Company A is a connected person of Listco because of Mr. X's substantial interest in it. Companies B and C, being subsidiaries of Company A, are also connected persons.</p>	<p>(a) Yes, because Company B is a connected person only because it is a subsidiary of Company A.</p> <p>(b) No. Company C is a connected person because it is a subsidiary of Company A <u>AND</u> because Mr. X is a substantial shareholder in it. The transaction does not meet the conditions for the exemption.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>

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			<p>Does the exemption under this Rule apply to:</p> <p>(a) a transaction between Company A and Company B; and</p> <p>(b) a transaction between Company A and Company C?</p>	
<u>Changes to the definitions of connected person and associates</u>				
14A.	<u>(FAQ withdrawn on 1 July 2014)</u>			
14A.	14A.37, 14A.38, 14A.46	20.37, 20.38, 20.46	<p>From January to May 2010, Listero entered into some non-exempt continuing connected transactions (the Transactions) with Entity A. Entity A was a connected person only because it was a promoter of Listero.</p> <p>Promoters are no longer connected persons after the Rule amendments. Will the Transactions be subject to the reporting and annual review requirements when Listero prepares</p>	<p>No.</p> <p><i>(Added in 17 September 2010)</i></p>

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			its annual report for the year ending 31 December 2010?	
<u>Transactions with third parties involving joint investments with connected persons</u>				
<u>15. (FAQ withdrawn on 1 July 2014)</u>				
15.	14A.13(1)(b)	20.13(1)(b)	<p>Subsidiary A is 60% owned by Listeo and 40% owned by Mr. X. It proposes to issue new shares to independent third parties. There is no arrangement for Mr. X to sell his existing shares in Subsidiary A.</p> <p>The deemed disposal is a connected transaction for Listeo under this Rule only because Mr. X is controller of Subsidiary A. Under Note 4 to the Rule, it is exempt from the connected transaction requirements if there is no change in the Mr. X's shareholding in Subsidiary A.</p>	<p>Yes. Although the transaction will result in a dilution of Mr. X's interest in Subsidiary A, there is no change in the number of shares held by him. We would accept that the conditions for the exemption in Note 4 are met in this case.</p>

No.	Main Board Rules	GEM Rules	Query	Response
			The proposed issue will dilute Mr. X's interest in Subsidiary A to about 36%. Does it qualify for the exemption?	