

**Rule Requirements relating to Notifiable Transactions, Connected Transactions and
Issues of Securities by Listed Issuers**

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.

Part 1 – Notifiable Transactions

No.	Main Board Rules	GEM Rules	Query	Response
<u>General</u>				
1.	1.01, 14.04(6)	1.01, 19.04(6)	<p>Company X is a jointly controlled entity of Listco A whose securities are listed on the Exchange.</p> <p>Company X proposes to acquire certain assets from a third party. Is Listco A required to comply with the requirements of Chapter 14 of the Main Board Rules / Chapter 19 of the GEM Rules for the proposed acquisition of assets by Company X?</p>	<p>It would depend on whether Company X is a subsidiary of Listco A as defined in Main Board Rule 1.01/ GEM Rule 1.01. An assessment of whether an undertaking is a subsidiary for Listing Rules purposes would include consideration of how the entity is accounted for and whether the entity is a subsidiary undertaking as defined by schedule 1 to the Companies Ordinance. For example, Listco A owns more than 50% of the equity interest in Company X but it does not control the majority of the board of Company X under the terms of the joint venture agreement. Even though Company X is only accounted for as an associated company in Listco A’s consolidated accounts, Company X is still a subsidiary of Listco A for the purpose of the Listing Rules due to Listco A’s shareholding in Company X.</p> <p>The notifiable transaction requirements under Chapter 14 of the Main Board Rules / Chapter 19 of the GEM Rules generally apply to transactions undertaken by the listed company and/or its subsidiaries. For the purposes of Chapter 14 of the Main Board Rules / Chapter 19 of the GEM Rules, the term “listed issuer” is defined under Main Board Rule 14.04(6) / GEM Rule 19.04(6) to include the listed company itself and its subsidiaries, unless the context otherwise requires.</p> <p>In the circumstances described, if Company X is regarded as</p>

No.	Main Board Rules	GEM Rules	Query	Response
				<p>a subsidiary of Listco A pursuant to Main Board Rule 1.01/ GEM Rule 1.01, Listco A must ensure compliance with the requirements under Chapter 14 of the Main Board Rules / Chapter 19 of the GEM Rules in respect of the proposed acquisition of assets by Company X.</p> <p>[Updated in April 2015]</p>
2.	14.04(1)(a), 14.20	19.04(1)(a), 19.20	<p>A listed issuer is proposing a group restructuring under which one of its wholly owned subsidiaries would transfer certain fixed assets to a 70%-owned subsidiary of the listed issuer at fair value of the assets.</p> <p>Is the proposed group restructuring subject to the requirements under Chapter 14 of the Main Board Rules / Chapter 19 of the GEM Rules?</p>	<p>In the case of a group restructuring, the Exchange will take into account the substance of the transaction and its impact on the listed issuer group as a whole when applying the notifiable transaction requirements.</p> <p>In the circumstances described, the proposed group restructuring would involve a disposal of fixed assets by one subsidiary and an acquisition of the same assets by another subsidiary. Calculations of the percentage ratios may produce an anomalous result for the purpose of classifying the transaction. The Exchange may accept alternative size tests calculated by the listed issuer based on the net disposal of the listed issuer's interest in the fixed assets.</p>
3.	14.04(1)(d)	19.04(1)(d)	<p>The definition of "transaction" includes entering into or terminating operating leases which have a significant impact on the operations of the listed issuer concerned. Does it refer to operating leases where the listed issuer acts as a lessee?</p>	<p>Main Board Rule 14.04(1)(d) / GEM Rule 19.04(1)(d) applies whether the listed issuer is the lessee or the lessor of the subject operating leases.</p>

No.	Main Board Rules	GEM Rules	Query	Response
4.	14.04(1)(f)	19.04(1)(f)	Does the term “joint venture entity” under Main Board Rule 14.04(1)(f) / GEM Rule 19.04(1)(f) only refer 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 Main Board Rule 14.04(1)(f) / GEM Rule 19.04(1)(f) may refer to any entity in any form which is to be jointly established by a listed issuer and any other party / parties, but is not limited to an entity which will be accounted for as a jointly controlled entity in the listed issuer’s accounts.
<u>Size test computation</u>				
5.	14.04(1)(f), 14.07	19.04(1)(f), 19.07	<p>Main Board Rule 14.15(2) / GEM Rule 19.15(2) sets out the requirements for calculating the consideration ratio for a transaction involving establishment of a joint venture entity. Are the assets ratio, profits ratio and the revenue ratio applicable to a transaction involving formation of a joint venture entity?</p> <p>If the joint venture partner proposes to inject its assets (other than cash) as capital contribution for setting up the joint venture entity, is it necessary to calculate the percentage ratios for the asset injection?</p>	<p>For the purpose of classifying a transaction involving formation of a joint venture entity, the listed issuer is normally required to compute the assets ratio and the consideration ratio, and the consideration determined with reference to Main Board Rule 14.15(2) / GEM Rule 19.15(2) would form the numerator for each of these ratios. As to the profits and revenue ratios, they would normally be inapplicable as the joint venture entity would be newly set up and its profits and revenue figures would not be available.</p> <p>Nevertheless, where the formation of joint venture entity involves injection of assets (other than cash) by the listed issuer and/or any joint venture partner into the joint venture entity, the listed issuer should consider whether the transaction would result in an acquisition and/or disposal of assets by the listed issuer. In the circumstances described, if the joint venture entity is to be accounted for as a subsidiary of the listed issuer, the injection of assets by the joint venture partner into the joint venture entity would in effect result in an acquisition of such assets by the listed issuer. The listed issuer should compute the percentage ratios of such</p>

No.	Main Board Rules	GEM Rules	Query	Response
				acquisition for classifying the transaction.
6.	14.04(2), 14.17	19.04(2), 19.17	<p>A listed issuer has published an audited interim accounts.</p> <p>Can the listed issuer refer to profits and revenue figures shown in such accounts for computation of the profits ratio and revenue ratio?</p>	<p>Under Main Board Rules 14.16 and 14.17 / GEM Rules 19.16 and 19.17, the profits and revenue figures to be used by a listed issuer as the basis of the profits ratio and revenue ratio must be the figures shown in its latest published audited accounts. This normally refers to the annual accounts of the listed issuer as the use of the profits and revenue figures shown in such accounts would provide a more meaningful measurement of the relative size of a transaction to the listed issuer based on the profitability and level of activity of a full financial year.</p>
7.	14.07(5)	19.07(5)	<p>A listed issuer proposes to settle the consideration payable for an acquisition by issuance of a convertible note.</p> <p>Is the listed issuer required to calculate the equity capital ratio? If yes, what figure should be used as the numerator of the equity capital ratio?</p>	<p>Yes. The listed issuer is required to calculate the equity capital ratio. The numerator should be the nominal value of the maximum number of shares that may be issued by the listed issuer assuming full conversion of the convertible note.</p>
8.	14.15(4)	19.15(4)	<p>A listed issuer proposes to acquire a target company from a third party vendor. The consideration for the acquisition includes (i) a fixed amount of cash and (ii) a further amount that may be payable by the listed issuer after completion of the acquisition upon occurrence of certain future events. Such further amount will be determined based on the valuation of the target company agreed by the parties at the</p>	<p>Under Main Board Rule 14.15(4) / GEM Rule 19.15(4), when calculating the consideration ratio, if the listed issuer may pay consideration in the future, the consideration is the maximum total consideration payable under the agreement.</p> <p>For the proposed acquisition of the target company, the numerator of the consideration ratio should include the fixed amount of cash as well as the maximum value of the further consideration that may be paid by the listed issuer in the</p>

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			<p>relevant time.</p> <p>How should the listed issuer calculate the consideration ratio?</p>	<p>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, notwithstanding the transaction class into which it otherwise falls.</p>
9.	14.16	19.16	<p>A listed issuer has been publishing unaudited quarterly results for the first 3 and 9 months of each financial year, which include a condensed consolidated balance sheet as at the end of the reporting period.</p> <p>Can the listed issuer refer to the total assets shown in the unaudited quarterly results recently published by the listed issuer when calculating the assets ratio?</p>	<p>For a GEM issuer, GEM Rule 19.16 provides that the issuer must refer to the total assets shown in its latest published audited accounts or half-year, quarterly or other interim report (whichever is more recent) for the purpose of calculating the assets ratio. In the circumstances described, a GEM issuer can refer to the total assets shown in its latest published quarterly results when calculating the assets ratio.</p> <p>For a Main Board issuer, Main Board Rule 14.16 provides that the issuer must refer to the total assets shown in its latest published audited accounts or interim report (whichever is more recent). While the rule makes no references to quarterly accounts, where the Main Board issuer has adopted quarterly reporting as recommended by the Code on Corporate Governance Practices set out in Appendix 14 to the Main Board Rules, it is acceptable for the issuer to refer to the total assets shown in its recently published quarterly results when calculating the assets ratio.</p>
10.	14.16, 14.17	19.16, 19.17	<p>A listed issuer has recently published the preliminary announcement of its results for latest financial year according to the Listing Rules. The listed issuer has not yet published the relevant annual report. When computing the assets ratio, profits ratio and revenue ratio,</p>	<p>Under Main Board Rules 14.16 and 14.17 / GEM Rules 19.16 and 19.17, the listed issuer should refer to the total assets, profits and revenue figures shown in its latest published audited accounts. Where the preliminary results announcement published by the listed issuer is based on its audited financial statements, the listed issuer should refer to</p>

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			can the listed issuer refer to the figures shown in the preliminary results announcement?	<p>the audited figures shown in such announcement for computing the assets, profits and revenue ratios.</p> <p>There may be situations where the audit of the listed issuer's accounts has not yet been completed and the listed issuer has published the preliminary results announcement based on its accounts which have been agreed with the auditors. In such circumstances, the listed issuer must ensure accuracy of the figures used for computing the assets, profits and revenue ratios. 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 comply with any additional requirements if the proposed transaction should fall under a higher classification.</p>
11.	14.17, 14.18, 14.20	19.17, 19.18, 19.20	<p>A listed issuer has published its latest annual audited accounts. It has also completed the disposal of a major subsidiary to a third party after the year end, details of which were disclosed by the listed issuer.</p> <p>The listed issuer now proposes to acquire a target company. When computing the assets ratio for such acquisition, the total assets figure of the listed issuer shown in its latest audited accounts would need to be adjusted for the disposal according to Main Board Rule 14.18 / GEM Rule 19.18. When computing the profits and revenue ratios for the acquisition, would it be necessary to adjust the listed issuer's profits and revenue figures to exclude the results of the</p>	<p>The requirement of Main Board Rule 14.18 / GEM 19.18 only applies to the total assets figure of the listed issuer.</p> <p>Main Board Rule 14.17 / GEM Rule 19.17 provides the circumstances under which the Exchange may prepare to accept the exclusion of profits and revenue from the discontinued operations of a listed issuer for the purpose of the profits ratio and revenue ratio respectively.</p> <p>In the circumstances described, the disposal of a major subsidiary may not fall under the situation described in Main Board Rule 14.17 / GEM Rule 19.17. Nevertheless, if the calculations of the profits and/or revenue ratios produce an anomalous result, the listed issuer may need to submit alternative size tests by excluding the results of the disposed subsidiary to the Exchange for consideration under Main</p>

No.	Main Board Rules	GEM Rules	Query	Response
			disposed subsidiary?	Board Rule 14.20 / GEM Rule 19.20. The listed issuer should consult the Exchange when calculating the percentage ratios for the proposed acquisition.
12.	14.20, 14.28	19.20, 19.28	<p>A listed issuer proposes to acquire a minority interest in a target company (5% of its equity capital) as an investment which will be classified as available-for-sale financial assets in the listed issuer's accounts.</p> <p>How should the listed issuer compute the assets ratio, profits ratio and revenue ratio?</p>	<p>The proposed transaction involves acquisition of an equity capital. According to Main Board Rule 14.28 / GEM Rule 19.28, when calculating the assets, profits and revenue ratios, the value of the target company's total assets, profits and revenue calculated in accordance with Main Board Rule 14.27 / GEM Rule 19.27 is to be multiplied by the percentage of equity interest being acquired by the listed issuer.</p> <p>However, where these percentage ratios produce an anomalous result, listed issuer may submit alternative tests for the Exchange's consideration pursuant to Main Board Rule 14.20 / GEM Rule 19.20. In the circumstances described, it is normally acceptable for the listed issuer to use the fair value of the interest in the target company to be acquired (determined in accordance with the applicable accounting standards adopted by the listed issuer) as the numerator of the alternative test to the assets ratio. As to the profits and revenue ratios, the listed issuer may submit alternative tests calculated with reference to the dividend declared by the target company and any dividend policy established by the target company for the Exchange's consideration.</p>

No.	Main Board Rules	GEM Rules	Query	Response
13.	14.26, 14.27	19.26, 19.27	A listed issuer proposes to acquire an equity interest in a target company which has commenced operation for less than one year. Would the listed issuer be required to use the annualized profits or revenue (as the case may be) of the target company as the numerators of the profits ratio or the revenue ratio?	<p>Under Main Board Rules 14.26 and 14.27/ GEM Rules 19.26 and 19.27, the numerators of the profits ratio and the revenue ratio are to be calculated by reference to the profits and revenue attributable to the target company's capital as disclosed in its accounts.</p> <p>Listing Rules do not require the listed issuer to annualize the profits or the revenue of the target company when computing the percentage ratios. However, the results of such calculations may be regarded by the Exchange as anomalous and alternative tests may be required to assess the relative size of the target company compared to the listed issuer group.</p>
<u>Aggregation of transactions</u>				
14.	14.22	19.22	<p>A listed issuer has recently completed an acquisition of the 80% interest in a target company, which constituted a major transaction, and it had complied with the applicable requirements under the Listing Rules. The listed issuer now proposes to acquire the remaining 20% interest in the same company which will by itself constitute a discloseable transaction.</p> <p>Would the Exchange apply Main Board Rule 14.22 / GEM Rule 19.22 to aggregate the proposed acquisition with the previous major transaction in the following scenarios?</p>	<p>The Exchange would consider the proposed acquisition and the completed transaction as a series of transactions as they involve acquisition of interest in one particular company and are entered into by the listed issuer within a short period of time.</p> <p>In determining whether to aggregate these transactions, the Exchange would also take into account the classification of the completed transaction, and whether the series of transactions when aggregated would result in a higher transaction classification and therefore be subject to additional Rule requirements.</p> <p>In scenario (a), the listed issuer had complied with the major</p>

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			<p>(a) The proposed acquisition when aggregated with the completed transaction would be classified as a major transaction.</p> <p>(b) The proposed acquisition when aggregated with the completed transaction would be classified as a very substantial acquisition.</p>	<p>transaction requirements in respect of the completed transaction and the Exchange would not require the listed issuer to reclassify the proposed acquisition by aggregating it with the completed transaction.</p> <p>In scenario (b), the Exchange would require the listed issuer to aggregate the proposed acquisition with the completed transaction and the listed issuer would need to comply with the very substantial acquisition requirements in respect of the proposed acquisition.</p>
15.	14.22	19.22	<p>A listed issuer has recently completed an acquisition which did not constitute a notifiable transaction. The listed issuer now proposes another acquisition which will constitute a discloseable transaction on a standalone basis. However, these acquisitions when aggregated would be classified as a major transaction.</p> <p>If the Exchange requires aggregation of the currently proposed acquisition with the previous acquisition, Main Board Rule 14.22 / GEM Rule 19.22 provides that the listed issuer must comply with the requirements for the relevant classification of the transaction when aggregated. How would the major transaction requirement apply to these acquisitions?</p>	<p>Normally, the major transaction requirement would only apply to the currently proposed acquisition but not the previous acquisition.</p> <p>Nevertheless, the listed issuer should ensure adequate information relating to the previous acquisition be disclosed in the announcement and circular of the proposed acquisition if such information is necessary for shareholders to make a properly informed decision on how to vote in respect of the proposed acquisition.</p>

No.	Main Board Rules	GEM Rules	Query	Response
<u>Shareholders' approval requirements</u>				
16.	14.40	19.40	<p>Listco A proposes to vary certain terms of a major transaction after it has been approved by its shareholders.</p> <p>The resolutions passed by the Listco A's shareholders in respect of the major transaction have given the directors the authority to take all steps necessary or expedient to implement the major transaction. Will Listco A be required to re-comply with the shareholders' approval requirement in respect of the revised transaction?</p>	<p>Depending on the nature and materiality of the changes in the terms, Listco A may be required to re-comply with the shareholders' approval requirement for the revised transaction.</p> <p>In the circumstances described, while the directors of Listco A are authorised to take steps that they consider necessary or expedient to implement the major transaction, any changes to the terms of the transaction so made by the directors should be non-material as a material change would in substance give rise to a new transaction and should not be made without prior shareholders' approval.</p>
<u>Disclosure in announcements</u>				
17.	14.58(3)	19.58(4)	<p>Is a listed issuer required to disclose the identity of the counterparty and of its ultimate beneficial owner in the announcement for a notifiable transaction?</p>	<p>Main Board Rules 14.58 to 14.60 / GEM Rules 19.58 to 19.60 set out the minimum disclosure requirements for announcements of different types of notifiable transactions.</p> <p>Main Board Rule 14.58(3) / GEM Rule 19.58(4) requires the announcement to contain a confirmation that the counterparty and its ultimate beneficial owner are independent of the listed group and the connected persons of the listed issuer. Disclosure of the identity of the counterparty and its ultimate beneficial owner would not be required under this rule unless they are not independent third parties.</p> <p>Notwithstanding the above, when determining the amount of</p>

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				information that needs to be disclosed in a notifiable transaction announcement, the listed issuer must also observe the general principle for disclosure under Main Board Rule 2.13 / GEM Rule 17.56. In some circumstances, disclosure of the identity of the counterparty and its ultimate beneficial owner may be necessary to enable shareholders and investors to make an informed assessment of the transaction.
18.	14.58(6)	19.58(7)	<p>Main Board Rule 14.58(6) / GEM Rule 19.58(7) requires disclosure of the book value of the assets being the subject of the notifiable transaction in the announcement.</p> <p>In the case of an acquisition of equity capital, should the total assets or the net assets of the target company be disclosed in the announcement?</p>	<p>It is normally acceptable for the listed issuer to disclose the net asset value shown in the target company's latest accounts as defined in Main Board Rule 14.04(2)(b) / GEM Rule 19.04(2)(b).</p> <p>Nevertheless, the listed issuer should also disclose any other material information concerning the assets and liabilities of the target company that the issuer considers necessary to enable shareholders and investors to properly assess the value of the target company under Main Board Rule 2.13 / GEM Rule 17.56.</p>
19.	14.58(6), 14.58(7)	19.58(7), 19.58(8)	<p>A listed issuer proposes to acquire interest in a target company which uses accounting standards different from those of the listed issuer.</p> <p>When disclosing the target company's financial information required under Main Board Rules 14.58(6) and (7) / GEM Rules 19.58(7) and (8), can the listed issuer refer to the relevant figures shown in the target company's accounts?</p>	<p>Under Main Board Rule 2.13 / GEM Rule 17.56, the listed issuer must ensure the information contained in its announcement be accurate and complete in all material respects and not misleading or deceptive.</p> <p>In circumstances described, reference can be made to Main Board Rule 14.07 / GEM Rule 19.07 which requires the listed issuer to perform, where applicable, an appropriate and meaningful reconciliation of the relevant figures of the target company for the purpose of calculating the percentage ratios. In such situation, the listed issuer should consider disclosing</p>

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				<p>the target company's financial information based on the accounting standards of the listed issuer for the purposes of Main Board Rules 14.58(6) and (7) / GEM Rules 19.58(7) and (8).</p> <p>Where the listed issuer discloses relevant figures shown in the target company's accounts for the purposes of Main Board Rules 14.58(6) and (7) / GEM Rules 19.58(7) and (8), it should make reference to the accounting standards adopted by the target company and where applicable, provide an explanation of any principal differences between the accounting standards of the listed issuer and the target company which may have a material impact on the financial information of the target company contained in the announcement.</p>
20.	14.58(7)	19.58(8)	<p>Main Board Rule 14.58(7) / GEM Rule 19.58(8) requires listed issuers to disclose in the announcement the net profits (both before and after taxation and extraordinary items) attributable to the assets which are the subject of the transaction for the two financial years immediately preceding the transaction.</p> <p>Is the requirement applicable to a transaction involving acquisition or disposal of real property? If yes, what information should be disclosed?</p>	<p>It would depend on whether the property to be acquired / disposed of by the listed issuer is a revenue-generating asset with an identifiable income stream. Where the listed issuer proposes to acquire / dispose of a property held for rental purpose, it would be required to disclose the net rental income generated from such property before and after taxation taking into account all related disbursements such as expenses for managing the property and allowances to maintain it in a condition to command its rent.</p>

No.	Main Board Rules	GEM Rules	Query	Response
<u>Profit forecast requirements</u>				
21.	2.13, 14.62, 14.64(2) [now 14.66(2)], App 1B – 29(2)	17.56, 19.62, 19.64(3) [now 19.66(3)], App 1B – 29(2)	<p>A listed issuer proposes to acquire a target company, which constitutes a notifiable transaction. The listed issuer has prepared a valuation of the target company using the discounted cashflow method, which is regarded as a profit forecast under Main Board Rule 14.61/ GEM Rule 19.61.</p> <p>Is the listed issuer required to disclose such valuation in its announcement and circular for the notifiable transaction and comply with Main Board Rule 14.62/ GEM Rule 19.62 and paragraph 29(2) of Appendix 1B to the Main Board Rules/ GEM Rules?</p>	<p>Under the Listing Rules, there is no specific requirement for the listed issuer to disclose the profit forecast for the target company to be acquired. However, the listed issuer must observe the general disclosure principle under Main Board Rule 2.13/ GEM Rule 17.56. For example, where the valuation of the target company was a primary factor in forming the basis for the consideration or other material terms of the transaction, disclosure of the valuation would need to be made in the relevant announcement and circular.</p> <p>Where a notifiable transaction announcement / circular contains a profit forecast in respect of the listed issuer or a company which is/ is proposed to become, one of its subsidiaries, the listed issuer is required to comply with Main Board Rule 14.62 / GEM Rule 19.62 and paragraph 29(2) of Appendix 1B to the Main Board Rules/ GEM Rules (as the case may be).</p> <p>(Rule reference updated in September 2009)</p>
22.	2.13, 14.62, 14.64(2) [now 14.66(2)], App 1B – 29(2)	17.56, 19.62, 19.64(3) [now 19.66(3)], App 1B – 29(2)	<p>A listed issuer proposes to acquire a revenue generating asset, which constitutes a notifiable transaction. There is a valuation of such asset prepared using the discounted cashflow method, which is regarded as a profit forecast under Main Board Rule 14.61/ GEM Rule 19.61.</p> <p>Will the listed issuer be required to comply with</p>	<p>Under Main Board Rule 14.62 / GEM Rule 19.62, the formal reporting requirements apply where the announcement contains a profit forecast in respect of the listed issuer or a company which is/ is proposed to become, one of its subsidiaries.</p> <p>In this case, while the profit forecast made in respect of the revenue generating asset may not fall within Main Board</p>

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			<p>the formal reporting requirements under Main Board Rule 14.62/ GEM Rule 19.62 if it discloses the valuation of the revenue generating asset in its announcement issued under the notifiable transaction rules?</p>	<p>Rule 14.62 / GEM Rule 19.62, the listed issuer must ensure compliance with Main Board Rule 2.13 / GEM Rule 17.56 when its announcement contains profit forecast of the asset to be acquired, particularly where the assets are material to the listed issuer.</p> <p>The listed issuer should also note that where the proposed acquisition constitutes a major transaction or above that requires a circular, it is required to comply with the formal reporting requirements in respect of the profit forecast of the asset contained in the circular pursuant to Paragraph 29(2) of Appendix 1B to the Main Board Rules / GEM Rules.</p> <p>(Rule reference updated in September 2009)</p>
23.	<p>14.64(2) [now 14.66(2)], App 1B – 29(2)</p>	<p>19.64(3) [now 19.66(3)], App 1B – 29(2)</p>	<p>Where a circular in relation to a notifiable transaction contains a profit forecast, paragraph 29(2) of Appendix 1B to the Main Board Rules / GEM Rules requires that the financial advisers must report that they have satisfied themselves that the forecast has been stated by the directors after due and careful enquiry and such report must be set out in the circular.</p> <p>If no financial advisers have been appointed in connection with the notifiable transaction, can the directors of the listed issuer make their own confirmation that they have made the forecast after due and careful enquiry?</p>	<p>In the case of a notifiable transaction, Main Board Rule 14.62(3) / GEM Rule 19.62(3) provides that where the announcement contains a profit forecast and no financial advisers have been appointed in connection with the transaction, the listed issuer may provide a letter from the board of directors confirming they have made the forecast after due and careful enquiry.</p> <p>In the circumstances described, we may apply the principle of Main Board Rule 14.62(3) / GEM Rule 19.62(3) to the circular and accept the directors' confirmation for the purpose of Paragraph 29(2) of Appendix 1B. The listed issuer should consult the Exchange in advance in such circumstances.</p> <p>(Rule reference updated in September 2009)</p>

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<u>Disclosure in circulars</u>				
24.	14.63(2)(c)	19.63(2)(c)	<p>A listed issuer has obtained written shareholders' approval for a proposed major transaction under Main Board Rule 14.44/ GEM Rule 19.44. The Exchange has accepted the written shareholders' approval in lieu of holding a general meeting based on the information provided by the listed issuer.</p> <p>As there will not be any voting on the proposed transaction at general meeting, is the circular for such transaction required to contain a recommendation from the directors as to the voting action that shareholders should take pursuant to Main Board Rule 14.63(2)(c) / GEM Rule 19.63(2)(c)?</p>	<p>Main Board Rule 14.63(2) / GEM Rule 19.63(2) sets out certain information that need to be contained in the circular for a notifiable transaction if voting or shareholders' approval is required. Pursuant to Main Board Rule 14.63(2)(c) / GEM Rule 19.63(2)(c), the circular for the proposed transaction must contain a recommendation from the directors as to the voting action that shareholders should take, indicating whether or not the proposed transaction is, in the opinion of the directors, fair and reasonable and in the interest of the shareholders as a whole.</p> <p>In circumstances described, while the directors' recommendation to shareholders on how to vote would no longer be necessary, the circular must disclose the directors' opinion as to whether the proposed transaction is fair and reasonable and in the interest of the shareholders' as a whole.</p>
25.	14.66(2) [now 14.66(10)], App 1B – 28	19.66(2) [now 19.66(11)], App 1B – 28	<p>A listed issuer is preparing its circular in respect of a proposed major acquisition.</p> <p>Main Board Rule 14.66(2) [now Main Board Rule 14.66(10)] / GEM Rule 19.66(2) [now GEM Rule 19.66(11)] requires the listed issuer' circular to contain a statement of indebtedness of the group as at the most recent practicable date pursuant to paragraph 28 of Appendix 1B to the Main Board Rules/ GEM Rules. Can the listed issuer refer to the indebtedness position</p>	<p>The rule requires the listed issuer to provide up-to-date indebtedness statement of its group in the circular for shareholders' consideration. The Listing Division ordinarily requires the indebtedness statement to be dated not more than 8 weeks before the circular is issued, which follows the guidance set out in our letter of 21 July 2008 to market practitioners in relation to the disclosure of indebtedness statements in listing documents of new applicants. Depending on the despatch date of the circular, the year / period end date for the listed issuer's latest published accounts or interim report may not be regarded as</p>

No.	Main Board Rules	GEM Rules	Query	Response
			of the group disclosed in its latest published audited accounts or interim report?	<p>the most recent practicable date.</p> <p>Further, the listed issuer should note that according to Note 2 to Appendix 1B to the Main Board Rules/ GEM Rules, reference to the “group” under paragraph 28 of Appendix 1B is to be construed as including any company which will become a subsidiary of the listed issuer by reason of an acquisition which has been agreed or proposed since the date to which the latest audited accounts of the listed issuer have been made up.</p> <p>(Rule reference updated in September 2009)</p>
26.	14.66(2) [now 14.66(10)], App 1B - 30	19.66(2) [now 19.66(11)], App 1B - 30	<p>Pursuant to Main Board Rules 14.66(2) [now Main Board Rule 14.66(10)] and 14.68(1) / GEM Rules 19.66(2) [now GEM Rule 19.66(11)] and 19.68(1), a circular relating to a very substantial disposal must contain a statement by the listed issuer’s directors on the sufficiency of working capital available to the group pursuant to paragraph 30 of Appendix 1B to the Main Board Rules / GEM Rules.</p> <p>Where a listed issuer proposes to dispose of a subsidiary which constitutes a very substantial disposal, is it required to prepare the working capital statement on the group or the remaining group?</p>	<p>Paragraph 30 of Appendix 1B to the Main Board Rules / GEM Rules requires a working capital statement on the group which includes the listed issuer and its subsidiaries including the subsidiary to be disposed of. Note to Appendix 1B does not qualify paragraph 30 to exclude the subsidiary to be disposed of.</p> <p>(Rule reference updated in September 2009)</p>

No.	Main Board Rules	GEM Rules	Query	Response
27.	14.67	19.67	<p>Main Board Rule 14.67 / GEM Rule 19.67 sets out specific disclosure requirements for a circular issued <u>in relation to an acquisition</u> constituting a major transaction.</p> <p>Are listed issuers required to comply with the disclosure requirements under Main Board Rule 14.67 / GEM Rule 19.67 for major transactions involving formation of a joint venture?</p>	<p>When determining whether Main Board Rule 14.67 / GEM Rule 19.67 applies, the Exchange will consider whether the proposed transaction involves an acquisition of assets by the listed issuer.</p> <p>Normally, where the formation of joint venture only involves cash injection by the listed issuer and the joint venture partner(s), the disclosure requirements under Main Board Rule 14.67 / GEM Rule 19.67 would not apply as there is no acquisition of assets by the listed issuer.</p> <p>Where the formation of joint venture involves injection of assets (other than cash) (“Injected Assets”) by the joint venture partner into the joint venture that will become a subsidiary of the listed issuer, such arrangement would in effect result in acquisition of the Injected Assets by the listed issuer. In such case, if the acquisition is classified as a major transaction based on the percentage ratios, the disclosure requirements under Main Board Rule 14.67 / GEM Rule 19.67 would apply.</p>
28.	14.67(4)(b)(i) [now 14.67(6)(b)(i)]	19.67(4)(b)(i) [now 19.67(6)(b)(i)]	Main Board Rule 14.67(4)(b)(i) [now Main Board Rule 14.67(6)(b)(i)] / GEM Rule 19.67(4)(b)(i) [now GEM Rule 19.67(6)(b)(i)] requires that a circular issued in relation to a major transaction involving acquisition of any revenue-generating assets (other than a business or company) with an identifiable income stream or asset valuation must include “a profit and loss statement and a valuation (where available) for the 3 preceding financial years (or less,	For the purpose of Main Board Rule 14.67(4)(b)(i) [now Main Board Rule 14.67(6)(b)(i)]/ GEM Rule 19.67(4)(b)(i) [now GEM Rule 19.67(6)(b)(i)], where the target assets to be acquired have an identifiable income stream, a profit and loss statement in respect of such assets must be compiled and derived from the underlying books and records for inclusion in the circular for the proposed major transaction. Therefore, when the listed issuer enters into an agreement for the proposed acquisition, we expect that it will ensure that the relevant books and records are or will be made available to

No.	Main Board Rules	GEM Rules	Query	Response
			<p>where the asset has been held by the vendor for a shorter period) on the identifiable net income stream and valuation in relation to such assets...”.</p> <p>A listed issuer is preparing a circular for its proposed major transaction involving acquisition of some revenue-generating assets. Is the requirement under Main Board Rule 14.67(4)(b)(i) [now Main Board Rule 14.67(6)(b)(i)]/ GEM Rule 19.67(4)(b)(i) [now GEM Rule 19.67(6)(b)(i)] applicable if both the profit and loss statement and valuation in respect of the assets to be acquired are not available from the vendor?</p>	<p>the listed issuer and the reporting accountants for compliance with the rule.</p> <p>The valuation of the target asset would need to be contained in the circular where it is available.</p> <p>(Rule reference updated in September 2009)</p>
29.	14.68(2)(a)(i) ¹	19.68(2)(a)(i) ¹	<p>A listed issuer proposes to despatch a circular for a very substantial disposal in mid July 2008. Since the listed issuer has a financial year end date of 31 December, it proposes to include in the circular an accountants’ report on the remaining group pursuant to Main Board Rule 14.68(2)(a)(i) Note 1 covering the 3 financial years ended 31 December 2007 and a stub period from 1 January 2008 up to 30 April 2008.</p> <p>Is the listed issuer required to disclose the financial information during the stub period by way of an announcement upon despatch of the circular?</p>	<p>While there is no specific announcement requirement for disclosing the financial information of the remaining group during the stub period reported in the accountants’ report under Chapter 14 of the Main Board Rules / Chapter 19 of the GEM Rules, the listed issuer must observe the general disclosure obligation under Main Board Rule 13.09/ GEM Rule 17.10. Where any information which requires disclosure under the Inside Information Provisions emerges during the preparation of the circular in particular the financial information, the issuer must simultaneously announce the information under Main Board Rule 13.09(2)(a) / GEM Rule 17.10(2)(a)².</p> <p><i>Notes:</i></p>

No.	Main Board Rules	GEM Rules	Query	Response
				<p>1. Rule reference updated in July 2010.</p> <p>2. Amendment made in light of the Rule changes consequential on the statutory backing to issuers' continuing obligation to disclose inside information, which became effective on 1 January 2013. (Added in January 2013)</p>
30.	14.68(3)	19.68(3)	<p>Main Board Rule 14.68(3) / GEM Rule 19.68(3) requires disclosure of the financial information on the remaining group under paragraph 32 of Appendix 16 to the Main Board Rules/ GEM Rule 18.41 in a circular for very substantial disposals.</p> <p>Please clarify the reporting period in respect of such disclosure.</p>	<p>Where financial information on the issuer's group is contained in the circular (i.e. under Main Board Rule 14.68(2)(a)(i)(B)/ GEM Rule 19.68(2)(a)(i)(B)), the disclosure under Main Board Rule 14.68(3) should cover the same reporting period.</p> <p>Where financial information on the disposal target is contained in the circular (i.e. under Main Board Rule 14.68(2)(a)(i)(A)/ GEM Rule 19.68(2)(a)(i)(A)), the disclosure under Main Board Rule 14.68(3) should cover the reporting period of the issuer group's previously published financials (i.e. the latest three financial years and, where applicable, the most recent interim period, for which the issuer group's financial information has been published).</p> <p><i>Note: Amended in July 2010 to take into account Rule changes in June 2010.</i></p>
31.	14.69(3)	19.69(3)	<p>Main Board Rule 14.69(3) / GEM Rule 19.69(3) provides that a circular issued in relation to a very substantial acquisition must contain "a valuation report on the enlarged group's interests in land or buildings in</p>	<p>Main Board Rule 5.02 / GEM Rule 8.02 provides that where a notifiable transaction involves an acquisition or disposal of a property or a company whose assets consist solely or mainly of property and any of the percentage ratios of the transaction exceeds 25% (i.e. major transaction or above), a</p>

No.	Main Board Rules	GEM Rules	Query	Response
			<p>accordance with Chapter 5 of the Main Board Rules / Chapter 8 of the GEM Rules”.</p> <p>Please clarify the application of Main Board Rule 14.69(3) / GEM Rule 19.69(3) where the asset to be acquired by a listed issuer under a proposed very substantial acquisition is neither a property nor a company whose assets consist solely or mainly of property / properties.</p>	<p>valuation of and information on such property must be included in the circular.</p> <p>Where the acquisition target is neither a property nor a company whose assets consist solely or mainly of property/ properties as described in Main Board Rule 5.02 / GEM Rule 8.02, Rule 14.69(3) / GEM Rule 19.69(3) would not be applicable.</p>

Part 2 – Connected Transactions

No	Main Board Rules	GEM Rules	Query	Response
<u>General requirements</u>				
32.	14A.34	20.32	<p>A listed issuer proposes to enter into a connected transaction which is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Main Board Rules or Chapter 20 of the GEM Rules.</p> <p>Is the listed issuer required to enter into a written agreement for the connected transaction?</p>	<p>Yes. Pursuant to Main Board Rule 14A.34/ GEM Rule 20.32, a listed issuer and its subsidiaries must enter into written agreements in respect of all connected transactions undertaken.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
<u>Definition of connected persons and connected transactions</u>				
33.	14A.07(1)	20.07(1)	<p>Does a substantial shareholder of a jointly controlled entity of the listed issuer fall within the definition of “connected person” under Chapter 14A of the Main Board Rules/ Chapter 20 of the GEM Rules?</p>	<p>It would depend on whether the jointly controlled entity falls within the definition of “subsidiary” under Rule 1.01 of the Main Board Rules/ GEM Rules.</p> <p>Where the jointly controlled entity is a “subsidiary” of the listed issuer under Main Board Rule 1.01 / GEM Rule 1.01, its substantial shareholder is a connected person of the listed issuer under Main Board Rule 14A.07 / GEM Rule 20.07. Under Rule 1.01, the term “subsidiary” includes:</p> <p>(a) a “subsidiary undertaking” as defined in schedule 1 to the Companies Ordinance;</p> <p>(b) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a</p>

No	Main Board Rules	GEM Rules	Query	Response
				<p>subsidiary pursuant to applicable Hong Kong Financial Reporting Standards or International Financial Reporting Standards; and</p> <p>(c) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to applicable Hong Kong Financial Reporting Standards or International Financial Reporting Standards.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
34.	(FAQ withdrawn on 1 July 2014)			
35.	(FAQ withdrawn on 2 July 2010)			
36.	(FAQ withdrawn on 2 July 2010)			
37.	14A.25, 14A.92(1)	20.23, 20.90(1)	<p>A listed issuer and its holding company formed a 80:20 joint venture. The joint venture is accounted for as a (non wholly owned) subsidiary of the listed issuer.</p> <p>The listed issuer and its holding company propose to make a further capital contribution to the joint venture in form of cash, in proportion to their existing shareholding interests in the joint venture.</p> <p>Will the capital contributions by the listed issuer and its holding company constitute connected</p>	<p>Given that the joint venture is a connected person of the listed issuer pursuant to Main Board Rule 14A.16(1)/ GEM Rule 20.14(1), the capital contribution by the listed issuer to the joint venture constitutes a connected transaction under Main Board Rule 14A.25/ GEM Rule 20.23 subject to announcement, reporting and shareholders' approval requirements.</p> <p>Since the holding company of the listed issuer is a connected person, its capital contribution to the joint venture (being a subsidiary of the listed issuer) also constitutes a connected transaction under Main Board Rule 14A.25/ GEM Rule 20.23. The capital contribution by the</p>

No	Main Board Rules	GEM Rules	Query	Response
			transactions?	<p>holding company will be exempt from the announcement, reporting and shareholders' approval requirements under Main Board Rule 14A.92(1) / GEM Rule 20.90(1) on the basis that the holding company's capital contribution will be made in proportion to its shareholding interests in the joint venture.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
38.	14A.28	20.26	<p>A listed issuer proposes to acquire 60% interest in Company G which is wholly owned by Individual P, an independent third party.</p> <p>After the acquisition, Individual P will continue to hold 40% interest in Company G which will be a 60% owned subsidiary of the listed issuer.</p> <p>(1) Does the acquisition constitute a connected transaction?</p> <p>(2) Will the answer to (1) be different if Individual P is to be appointed as a director of the listed issuer after the acquisition?</p>	<p>(1) Since Individual P is not a connected person of the listed issuer at the time of the transaction, the acquisition does not fall within the definition of "connected transaction" under Main Board Rule 14A.25/ GEM Rule 20.23.</p> <p>Since Individual P will not become a controller of the listed issuer as defined in Main Board Rule 14A.28(1)/ GEM Rule 20.26(1) after the acquisition, the acquisition does not fall within the definition of "connected transaction" under Main Board Rule 14A.28/ GEM Rule 20.26.</p> <p>(2) If Individual P is to be appointed as a director of the listed issuer after the acquisition, he will become a controller under Main Board Rule 14A.28(1)/ GEM Rule 20.26(1) and the acquisition will fall within the definition of "connected transaction" under Main Board Rule 14A.28/ GEM Rule 20.26.</p> <p><i>Note: Updated in July 2014.</i></p>

No	Main Board Rules	GEM Rules	Query	Response
39.	(FAQ withdrawn on 1 July 2014)			
40.	(FAQ withdrawn on 2 July 2010)			
	<u>Deeming provisions</u>			
41.	(FAQ withdrawn on 2 July 2010)			
	<u>Independent board committee</u>			
42.	13.39(6)(a) and (c), 14A.41	17.47(6)(a) and (c), 20.39	Should the independent board committee established under Main Board Rules 13.39(6)(a) and 14A.41/ GEM Rules 17.47(6)(a) and 20.39 comprise all independent non-executive directors of the listed issuer?	The independent board committee should comprise all independent non-executive directors of the listed issuer, who have no material interest in the relevant transaction. <i>Note: Rule reference updated in July 2014.</i>
	<u>Exemptions</u>			
43.	14A.76	20.74	Do the de minimis exemptions under Chapter 14A of the Main Board Rules / Chapter 20 of the GEM Rules apply to all types of connected transactions that do not exceed the thresholds specified therein?	The de minimis exemptions do not apply to (a) connected transactions which are not on normal commercial terms; or (b) connected transactions which involve issue of new securities by a listed issuer to a connected person. <i>Notes:</i> <i>1. Updated in July 2010 to remove reference to “issue of new securities by the issuer’s subsidiaries”. Under</i>

No	Main Board Rules	GEM Rules	Query	Response
				<p><i>Main Board rules 14A.31(2) and 14A.32/ GEM rules 20.31(2) and 20.32 amended in June 2010, the de minimis exemptions will also apply to issue of securities by the issuer's subsidiaries.</i></p> <p>2. <i>Rule reference updated in July 2014.</i></p>
44.	(FAQ withdrawn on 1 July 2014)			
	<u>Size test computation for connected transactions</u>			
45.	(FAQ withdrawn on 1 July 2014)			
46.	14A.76, 14A.78	20.74, 20.76	<p>Are the assets ratio and the revenue ratio applicable to continuing connected transactions involving:</p> <p>(a) sales of goods or services by listed issuers;</p> <p>(b) purchase of goods or services by listed issuers; and</p> <p>(c) lease of properties by listed issuers?</p>	<p>For the purposes of classifying a connected transaction, listed issuers are required to compute the percentage ratios (other than the profits ratio) to assess the size of the transaction relative to that of the listed issuer pursuant to Main Board Rules 14A.76 and 14A.78/ GEM Rule 20.74 and 20.76. Listed issuers are therefore required to compute the assets ratio, revenue ratio and consideration ratio for the continuing connected transaction using the annual cap as the numerators.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
47.	14A.76, 14A.78, 14A.80	20.74, 20.76, 20.78	A listed issuer proposes to enter into an agreement with its substantial shareholder in respect of the purchase of raw materials from the substantial shareholder for a period of 6 months.	For a continuing connected transaction that is on normal commercial terms, the de minimis exemption under Main Board Rule 14A.76 / GEM Rule 20.74 applies if each of the percentage ratios (other than the profits ratio) is on <i>an</i>

No	Main Board Rules	GEM Rules	Query	Response
			<p>The listed issuer expects that it will continue to carry out such transaction with the substantial shareholder after the 6-month period.</p> <p>Should the listed issuer compute the percentage ratios for the proposed transaction using the cap estimated based on the value of transaction under the term of the agreement (i.e. the 6-month period)?</p>	<p><i>annual basis</i> less than the threshold set out in the rule.</p> <p>In the circumstances described, the percentage ratios are calculated based on the estimated maximum value of the transaction under the agreement. Nevertheless, the Exchange may consider the calculation of the percentage ratios be anomalous given the parties' intention to continue with the transaction after the relevant 6-month period. The Exchange may require the listed issuer to submit alternative size tests calculated based on the reasonable estimated value of the transaction on an annualised basis to ensure an appropriate comparison of the size of the transaction against that of the listed issuer.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
48.	(FAQ withdrawn on 1 July 2014)			
	<u>Continuing connected transactions</u>			
49.	14A.52	20.50	<p>Can a listed issuer enter into a written agreement in respect of a continuing connected transaction for a term of 3 years which will be automatically renewed unless both parties agree to terminate the agreement?</p>	<p>No. Under Main Board Rule 14A.52/ GEM Rule 20.50, the period for an agreement in respect of a continuing connected transaction must be fixed.</p> <p>In the circumstance described, the renewal of the agreement upon the expiry of the initial term of 3 years is not at the listed issuer's discretion nor, where applicable, subject to further independent shareholder approval and the agreement would continue unless both the listed issuer and the counterparty agree to terminate the agreement. On this</p>

No	Main Board Rules	GEM Rules	Query	Response
				<p>basis, the agreement will not be regarded to have a fixed term as required under Main Board Rule 14A.52/ GEM Rule 20.50.</p> <p><i>Note: Rule reference and drafting updated in July 2014.</i></p>
50.	14A.52, 14A.53	20.50, 20.51	<p>A listed issuer proposes to enter into an agreement for certain continuing connected transaction for a period of 6 years. Pursuant to Main Board Rule 14A.52/ GEM Rule 20.50, the listed issuer has obtained the opinion of an independent financial adviser explaining why a longer period for the agreement is required and confirming that it is normal business practice for contracts of such type to be of a duration of 6 years.</p> <p>(1) Is the listed issuer required to disclose the views of the independent financial adviser?</p> <p>(2) Is the listed issuer required to set annual caps in respect of the continuing connected transaction for the entire period for the agreement and comply with the applicable Listing Rules when it first enters into the agreement?</p>	<p>(1) Yes. The information is necessary to enable shareholders to understand whether the agreement is entered into by the listed issuer on normal commercial terms. Such information should be disclosed in its circular to shareholders or, if the transaction is subject to the announcement and reporting requirements only, the announcement published under Main Board Rule 14A.35/ GEM Rule 20.33.</p> <p>(2) Yes. If the listed issuer cannot set annual caps for the entire term of agreement for any reasons, the listed issuer should seek guidance from the Exchange. The listed issuer would normally be required to set annual caps for a shorter period (say 3 years) and re-comply with the relevant Listing Rule requirements (including setting annual caps, issuing announcements and/or obtaining shareholders' approval) before the end of that (3 year) period.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
51.	14A.53	20.51	Main Board Rule 14A.53/ GEM Rule 20.51 requires a listed issuer to set an annual cap for a continuing connected transaction.	While this is a matter to be decided by the listed issuer, we encourage it to set the annual cap with reference to its financial year. The reason is that in our experience this would reduce the work and cost of the annual review of the

No	Main Board Rules	GEM Rules	Query	Response
			Should the listed issuer set the annual cap with reference to its financial year or calendar year?	<p>continuing connected transaction required under Main Board Rule 14A.56(4)/ GEM Rule 20.54.</p> <p><i>Note: Rule reference and drafting updated in July 2014.</i></p>
52.	(FAQ withdrawn on 1 July 2014)			
	<u>Shareholders' meeting waiver</u>			
53.	14A.37, 13.36	20.35, 17.39, 17.41	<p>Company I proposes to acquire a property from one of its directors, which constitutes a discloseable and connected transaction. The consideration for the proposed acquisition will be settled by issuing new shares of Company I to the vendor.</p> <p>No shareholder is required to abstain from voting if Company I were to convene a general meeting for the approval of the proposed acquisition. Company I has obtained the written approval of the transaction from its parent company holding 60% interest in Company I.</p> <p>Will the Exchange grant a waiver to Company I from convening a general meeting to approve the connected transaction pursuant to Main Board Rule 14A.37 / GEM Rule 20.35? Can Company I issue the consideration shares using the existing general mandate?</p>	<p>As Company I is able to meet all the conditions set out in Main Board Rule 14A.37 / GEM Rule 20.35, a waiver from convening a general meeting to approve the proposed acquisition would normally be granted to Company I for the purpose of connected transaction rules.</p> <p>On the basis that Company I has obtained independent shareholder approval for the proposed acquisition, and the method of settling the consideration was clearly disclosed and not subject to amendment, Company I would be permitted to issue the consideration shares to the vendor pursuant to a general mandate according to Note 1 to Main Board Rule 13.36(2)(b) / the Note to GEM Rule 17.41(2).</p> <p><i>Note: Rule reference updated in July 2014.</i></p>

No	Main Board Rules	GEM Rules	Query	Response
<u>Circular requirements</u>				
54.	(FAQ withdrawn on 1 July 2014)			
55.	14A.70(8)	20.68(8)	<p>Does Main Board Rule 14A.70(8)/ GEM Rule 20.68(8) apply to the acquisition of exploitation right in respect of a coal mine?</p> <p>Main Board Rule 14A.70(8)/ GEM Rule 20.68(8) applies as long as the primary significance of the asset being acquired or disposed of is its capital value.</p>	<p>In the circumstance described, the listed issuer would acquire an exploitation right for natural resources and the primarily significance of such asset would be its capital value. Under Main Board Rules 18.09(3) and 18.10 / GEM Rules 18A.09(3) and 18A.10, a valuation is required for a major or above acquisition of mineral and/or petroleum assets. For the purpose of Main Board Rule 14A.70(8) / GEM Rule 20.68(8), we will apply the same principle and will only require a valuation if the transaction is classified as major or above.</p> <p><i>Notes:</i></p> <ol style="list-style-type: none"> 1. <i>Amended in July 2010 to reflect the new valuation requirements for mineral and/or petroleum assets set out in the new Main Board Chapter 18 / GEM Chapter 18A introduced on 3 June 2010.</i> 2. <i>Rule reference updated in July 2014.</i>
56.	14A.70(8)	20.68(8)	Does Main Board Rule 14A.70(8)/ GEM Rule 20.68(8) apply to the acquisition of machinery and equipment by listed issuers?	Given that the primary significance of machinery and equipment is their capital value, the listed issuer will be required to comply with Main Board Rule 14A.70(8)/ GEM Rule 20.68(8) and include in its circular the report prepared by an independent valuer on the valuation of the machinery and equipment to ensure that sufficient information is

No	Main Board Rules	GEM Rules	Query	Response
				<p>provided for shareholders to make an informed decision.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
	<p><u>Financial assistance transactions</u></p>			
57.	14A.25, 14A.89, 14A.90	20.23, 20.87, 20.88	<p>Company I is the non-wholly owned subsidiary of a listed issuer and is owned as to 80% and 20% by the listed issuer and Company X respectively. Company X is a connected person of the listed issuer (a connected person at the level of the issuer's subsidiaries) only by virtue of its substantial shareholding in Company I.</p> <p>The listed issuer and Company X propose to provide shareholders' loans to Company I in proportion to their respective interest in Company I.</p> <p>Will the pro rata shareholders' loan arrangement be subject to the connected transaction rules?</p>	<p>Since Company I is neither a connected person of the listed issuer nor a company falling under Main Board Rule 14A.27/ GEM Rule 20.25, the provision of the shareholder's loan by the listed issuer to Company I will not be a connected transaction.</p> <p>The provision of the shareholder's loan by Company X to Company I will constitute a connected transaction for the listed issuer under Main Board Rule 14A.25/ GEM Rule 20.23. Such shareholder's loan will be exempt from reporting, announcement and shareholders' approval requirements under Main Board Rule 14A.90/ GEM Rule 20.88 if it is provided by Company X on normal commercial terms (or better to the listed issuer) and no security is granted over the assets of the listed issuer in respect of the shareholder's loan.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
58.	<p>(FAQ withdrawn on 2 July 2010)</p>			

No	Main Board Rules	GEM Rules	Query	Response
<u>Option arrangements</u>				
59.	14A.24(2)(a), 14A.25, 14A.79(3)	20.22(2)(a), 20.23, 20.77(3)	<p>A listed issuer proposes to acquire a 70% interest in a target company from a third party vendor which is not a connected person of the listed issuer. At the same time, the parties would enter into an option agreement under which the vendor grants a call option (which is exercisable at the listed issuer's discretion) to the listed issuer for acquiring all the remaining 30% interest in the target company held by the vendor.</p> <p>Upon completion of the acquisition, the target company would be a subsidiary of the listed issuer and the vendor would become a connected person of the listed issuer given its substantial shareholding in the target company. Would the exercise of the call option by the listed issuer constitute a connected transaction under the Listing Rules?</p>	<p>Whilst the vendor is not a connected person when the listed issuer enters into the option agreement, if the vendor has become a connected person at the time of the (discretionary) exercise of the option, the exercise of the option by the listed issuer would constitute a connected transaction pursuant to Main Board Rule 14A.25 / GEM Rule 20.23 and the listed issuer must comply with Main Board Rule 14A.79(3)/ GEM Rule 20.77(3).</p> <p><i>Note: Rule reference updated in July 2014.</i></p>
60.	14A.79(3), 14.76(2)	20.77(3), 19.76(2)	<p>A listed issuer proposes to enter into a transaction involving the grant of an option to the listed issuer to acquire an asset from an independent third party. The option is exercisable at the discretion of the listed issuer.</p> <p>At the time of the grant of the option, the listed issuer does not have any plan or timetable on whether and when it will exercise the option to</p>	<p>(1) The listed issuer may, at the time of entering into an option, seek any shareholders' approval necessary for the exercise of the option (in addition to seeking any shareholders' approval necessary for entering into of the option). Such approval, if obtained, will be sufficient for satisfying the shareholders' approval requirement for notifiable transactions pursuant to Main Board Rule 14.76(2)/ GEM Rule 19.76(2).</p>

No	Main Board Rules	GEM Rules	Query	Response
			<p>acquire the target asset.</p> <p>It proposes to seek shareholders' approval for the exercise of an option, in addition to seeking any shareholders' approval necessary for the entering into of the option.</p> <p>The actual monetary value of the total consideration payable upon exercise and all other relevant information are known and would be disclosed to the shareholders at the time when the shareholders' approval is obtained. There is no change in any relevant facts at the time of exercise.</p> <p>(1) Will the listed issuer be required to seek separate shareholders' approval at the time of exercise of the option?</p> <p>(2) Will the answer to (1) be different if the vendor of the target asset is a connected person of the listed issuer?</p>	<p>(2) If the vendor is a connected person of the listed issuer at the time of exercise of the option, the listed issuer will be required to compute the percentage ratios at the time of exercise of the option pursuant to Main Board Rule 14A.79(3)/ GEM Rule 20.77(3), irrespective of whether it has sought shareholders' approval for the exercise of option at the time of entering into an option. Depending on the result of the relevant percentage ratios, the listed issuer may be required to comply with the announcement, reporting and shareholders' approval requirements at the time of exercise of the option.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>

Part 3 – Issues of Securities by Listed Issuers

No.	Main Board Rules	GEM Rules	Query	Response
<u>Issue of securities under general mandate</u>				
61.	13.36(2)(b)	17.41(2)	<p>A listed issuer proposes a resolution to seek shareholders’ approval for a bonus issue of shares to its existing shareholders pursuant to its articles of association at the forthcoming annual general meeting.</p> <p>Can the listed issuer take into account such bonus issue when determining the maximum number of shares that are allowed to be issued under a new general mandate proposed at the same general meeting?</p>	<p>No, because the bonus shares are not yet issued at the time when the listed issuer seeks shareholders’ approval for the new general mandate. Pursuant to Main Board Rule 13.36(2)(b) / GEM Rule 17.41(2), the maximum number of shares that may be issued under the general mandate is “(i) 20% of the <u>number of issued shares of the issuer as at the date of the resolution granting the general mandate...</u> plus the number of such securities repurchased by the issuer itself since the granting of the general mandate (up to a maximum number equivalent to 10% of the <u>number of issued shares of the issuer as at the date of the resolution granting the repurchase mandate...</u>”.</p> <p>[Updated in April 2015]</p>
62.	13.36(2)(b)	17.41(2)	<p>A listed issuer proposes to issue convertible notes which are convertible into new shares of the issuer. According to the terms of the convertible notes, the conversion price will be determined based on the closing price of the shares of the listed issuer on the trading day immediately before the conversion.</p> <p>The listed issuer notes that based on the recent closing prices of its shares trading on the Exchange, the total number of new shares that</p>	<p>In the circumstances described, the number of conversion shares estimated by the listed issuer based on recent closing prices of its shares cannot reflect the actual number of conversion shares that may be issued by the listed issuer according to the terms of the convertible notes. This is because the conversion price, and therefore the actual number of conversion shares, will only be determined upon the conversion of the notes.</p> <p>The listed issuer must demonstrate that its existing general mandate is sufficient to cover the number of new shares</p>

No.	Main Board Rules	GEM Rules	Query	Response
			<p>may be issued upon conversion of the convertible notes would not exceed the number of new shares that can be issued under the existing general mandate.</p> <p>Is it acceptable if the listed issuer uses its general mandate for such issue?</p>	<p>that may be issued upon full conversion of the convertible notes based on the terms of the notes. In particular, it should take into account the lowest possible conversion price, i.e. the maximum number of new shares that may be issued. In the present case, if the maximum number of conversion shares exceeds the number of new shares that can be issued under the general mandate, the listed issuer must seek a specific mandate from its shareholders for issuing the conversion shares as required under Main Board Rule 13.36(1) / GEM Rule 17.39 before it issues the convertible notes.</p> <p><u>(FAQ withdrawn on 3 July 2018)</u></p>
63.	13.36(5)	17.42B	<p>A listed issuer proposes to enter into an agreement with one of its creditors under which the listed issuer agree to issue new shares for the repayment of a loan due to the creditor.</p> <p>The listed issuer intends to issue the new shares under a general mandate. Is such issue subject to the restriction on pricing of the new shares to be issued under general mandate set out Main Board Rule 13.36(5) / GEM Rule 17.42B?</p>	<p>Yes. The proposal is in substance an issue of new shares for cash consideration. The listed issuer must ensure that the issue price of such new shares complies with the requirement of Main Board Rule 13.36(5) / GEM Rule 17.42B before it enters into the agreement.</p>
64.	(FAQ withdrawn on 29 May 2015)			
	<u>Issue of warrants</u>			
65.	13.36(2)(a), 15.02	17.41(1), 21.02	<p>A listed issuer proposes a bonus issue of warrants to its existing shareholders on a pro-rata basis.</p>	<p>The circumstances described involves issue of warrants and the listed issuer must also comply with Main Board Rule 15.02 / GEM Rule 21.02 which requires that all warrants</p>

No.	Main Board Rules	GEM Rules	Query	Response
			<p>Main Board Rule 13.36(2)(a) / GEM Rule 17.41(1) provides that no shareholders' approval is required for an offer of securities to shareholders on a pro-rata basis. Can the listed issuer apply this rule in respect of its proposed bonus issue of warrants?</p>	<p>must be approved by 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 Main Board Rule 13.36(2)/ GEM Rule 17.41(2).</p> <p>Accordingly, the listed issuer must have sufficient headroom under its general mandate to issue the bonus warrants, and if not shareholders' approval in a general meeting will be required.</p>
66.	Chapter 15	Chapter 21	<p>Listco Y is a PRC issuer whose H shares are listed on the Exchange. Listco Y has also issued A shares which are listed a PRC stock exchange. Listco Y proposes to issue some bonds in the PRC with bonus warrants that allow the warrant holders to subscribe for new A shares of Listco Y.</p> <p>Is such issue of warrants subject to Chapter 15 of the Main Board Rules / Chapter 21 of the GEM Rules?</p>	<p>Yes, because equity securities of Listco Y will be issued upon exercise of the warrants.</p> <p>Pursuant to Main Board Rule 15.01/ GEM Rule 21.01, Chapter 15 of the Main Board Rules / Chapter 21 of the GEM Rules applies to warrants (including options and other similar rights) issued by a listed issuer to subscribe or purchase equity securities of that issuer. The chapter mainly sets out the shareholders' approval requirements for the issue of warrants, and the requirements on the number and term of warrants to prohibit a listed issuer from issuing warrants with a material dilution effect on its shareholding.</p>
67.	App 6 – 1	-	<p>A Main Board listed issuer proposes a placing of warrants to subscribe new shares of the issuer. The listed issuer intends to apply for a listing of the warrants on the Exchange.</p> <p>If the proposed warrants are able to meet Main</p>	<p>Yes. According to Paragraph 15 of Appendix 6 to the Main Board Rules, placing of securities by a listed issuer is required to comply with the placing guidelines if the securities are of a class new to listing. As the warrants will be issued by way of placing, the listed issuer must comply with the requirements set out in the placing</p>

No.	Main Board Rules	GEM Rules	Query	Response
			Board Rule 8.09(4) which sets out the initial market capitalization requirement for listing of warrants, are they still subject to the initial market capitalization requirement set out in the placing guidelines under Appendix 6 to the Main Board Rules?	guidelines including the additional requirement for initial market capitalization for the securities to be placed.
<u>Announcement relating to issue of securities</u>				
68.	4.29	7.31	<p>A listed issuer proposes to place new shares to independent third parties for cash consideration, details of which will be disclosed by way of an announcement as required under Main Board Rule 13.28 / GEM Rule 17.30.</p> <p>Where the listed issuer provides information about the impact of the proposed placing on its financial position, is it required to comply with Main Board Rule 4.29 / GEM Rule 7.31 if the announcement contains the following information?</p> <p>(a) The adjusted net asset value of the listed issuer group calculated based on the net proceeds from the proposed placing and its latest published consolidated net asset value.</p> <p>(b) A qualitative explanation of the effect of the proposed placing on its financial position</p>	<p>Main Board Rule 4.29 / GEM Rule 7.31 sets out the standards of preparation and assurance associated with any disclosure of pro forma financial information (whether mandatory or voluntary) in any documents issued by the listed issuer under the Listing Rules. This requirement would therefore apply to announcements of the listed issuer.</p> <p>In the present case, the “adjusted net asset value” described in scenario (a) is regarded as pro forma financial information subject to Main Board Rule 4.29 / GEM Rule 7.31.</p> <p>In scenario (b), while a qualitative explanation of the effect of the proposed placing on the listed issuer financial position is not subject to Main Board Rule 4.29 / GEM Rule 7.31, the listed issuer must ensure that information contained in the announcement is accurate and complete in all material respects and not misleading or deceptive under Main Board Rule 2.13 / GEM Rule 17.56.</p>

No.	Main Board Rules	GEM Rules	Query	Response
			(for example, the proposed placing would increase the net asset value of the listed issuer group).	
69.	13.09(2), 13.10B	17.10(2), 17.12	<p>Listco Z is a PRC issuer whose H shares are listed on the Main Board. It proposes to issue new A shares in the PRC and apply for a listing on a PRC stock exchange.</p> <p>Listco Z will issue a prospectus in connection with the issue of A shares pursuant to the laws and regulation in the PRC and the requirements of the PRC stock exchange. In this regard, Listco Z will publish an announcement under the Main Board Rule 13.09(2)(a) / GEM Rule 17.10(2)(a) to promptly disclose information which is identified as inside information during preparation of the A share prospectus or as a consequence of other development. Will Listco Z still need to publish the A-share prospectus on the HKEx website for the purposes of the Listing Rules?</p>	<p>In addition to the disclosure obligation under Main Board Rule 13.09(2)(a) / GEM Rule 17.10(2)(a), Listco Z should also comply with Main Board Rule 13.10B / GEM Rule 17.12 to release the A-share prospectus to the market in Hong Kong through the HKEx website (in the form of an “overseas regulatory announcement”) at the same time as it is released in other market(s).</p> <p><i>Note: Amendment made in light of the Rule changes consequential on the statutory backing to issuers’ continuing obligation to disclose inside information, which became effective on 1 January 2013. (Added in January 2013)</i></p>
70.	13.28	17.30	A listed issuer proposes to enter into an agreement with an independent third party under which the independent third party will provide advisory services to the issuer and the consideration will be satisfied by issuing new shares of the issuer to the third party. Is such	<p>The requirements under Main Board Rule 13.28 / GEM Rule 17.30 only apply to an issue of securities for cash.</p> <p>In the circumstances described, if the proposed issue of new shares constitutes inside information which requires disclosure under the Inside Information Provisions, the</p>

No.	Main Board Rules	GEM Rules	Query	Response
			issue subject to the disclosure requirements under Main Board Rule 13.28 / GEM Rule 17.30?	<p>listed issuer must also simultaneously announce the information under Main Board Rule 13.09(2)(a) / GEM Rule 17.10(2)(a).</p> <p><i>Note: Amendment made in light of the Rule changes consequential on the statutory backing to issuers' continuing obligation to disclose inside information, which became effective on 1 January 2013. (Added in January 2013)</i></p>
<u>Other matters relating to issue of securities</u>				
71.	13.32(1)	11.23(7)	<p>A listed issuer proposes a rights issue of shares which will be fully underwritten by its controlling shareholder. Based on the size of the proposed rights issue, it is possible that if no qualifying shareholders take up their entitlement of rights shares, the controlling shareholder's interest in the listed issuer would increase to the extent that the public float of the listed issuer would fall below the minimum percentage required under the Listing Rules.</p> <p>Will the listed issuer be permitted to proceed with the rights issue?</p>	<p>It is the responsibility of the listed issuer to ensure compliance with its continuing obligations under the Listing Rules from time to time, particularly when it proposes any corporate actions.</p> <p>In the circumstances described, the listed issuer must demonstrate to the Exchange's satisfaction that there are adequate arrangements in place to ensure that the proposed rights issue, if it proceeds, would not result in a breach of the public float requirement set out in the Listing Rules. An example of an acceptable arrangement would be for a conditional placing agreement to be entered into by the controlling shareholder to place down a sufficient amount of its shares in the listed issuer to independent third parties in order to maintain the public float at or above the minimum prescribed percentage set out in the Listing Rules.</p>

No.	Main Board Rules	GEM Rules	Query	Response
72.	13.36, 28.05	17.39 to 17.42B, 34.05	<p>A listed issuer has some outstanding convertible bonds that are convertible into new shares of the issuer according to the terms of such bonds. These convertible bonds were issued by the listed issuer two years ago using the general mandate then available.</p> <p>Prior to the maturity date of the convertible bonds, the listed issuer and the holders of the convertible bonds propose to extend the maturity date and the conversion period of the bonds for one year and other terms of the bonds will remain unchanged. Is such proposal subject to the requirements relating to pre-emptive rights under Main Board Rule 13.36 / GEM Rules 17.39 to 17.42B?</p>	<p>Yes. In the circumstances described, the proposed extension of the maturity date and the conversion period of the convertible bonds is effectively a new arrangement with the bond holders that involves issue of new shares of the listed issuer. The listed issuer must obtain shareholders' approval of such proposal at general meeting under Main Board Rule 13.36(1) / GEM Rule 17.39 unless it has an existing general mandate that is sufficient to cover all new shares that may be issued upon conversion of the outstanding convertible notes during the extended period. The listed issuer is also reminded that under Main Board Rule 28.05 / GEM Rule 34.05, any alterations in the terms of convertible debt securities after issue must be approved by the Exchange except where the alterations take effect automatically under the existing terms of such convertible debt securities.</p> <p><u>(FAQ withdrawn on 3 July 2018)</u></p>