

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please make your comments by replying to questions below against proposed changes discussed in the Consultation Paper at the hyperlink: [http://www.hkex.com.hk/consul/paper/cp200910ct\\_e.pdf](http://www.hkex.com.hk/consul/paper/cp200910ct_e.pdf).

Where there is insufficient space provided for your comments, please attach additional pages.

### A. Transactions with persons connected with an issuer only by virtue of their relationship with the issuer's subsidiaries

1. Do you think that the definition of connected person should exclude persons connected by virtue of their relationship with an issuer's subsidiaries?

Yes

No

Please provide reasons for your views.

*We believe the current definition of connected person is overly complicated. There is no reason that the issuer should benefit a connected person at the subsidiary level at the expense of the relevant subsidiary or the group, and including connected person at a subsidiary level may unnecessary affect/restrict an issuer's commercial decision on a particular transaction. Moreover, it is practically very difficult and unduly burdensome for an issuer to get the information regarding the subsidiary, holding company and fellow subsidiary of the associate under paragraph (a)(v) and (b)(iv) of the definition for "associate", as such company is not controlled by the issuer.*

2. If your answer to question 1 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is "No", please provide reasons and alternative views.

3. On the basis that the definition of connected person will continue to include person connected at the subsidiary level, do you agree with the proposal to introduce an “insignificant subsidiary exemption” for connected transactions?

Yes

No

Please provide reasons for your views.

***This could slightly reduce the burden on issuers as small transactions could be exempted. However, we maintain the view that it is not necessary for connected person at the subsidiary level to be included in the definition of connected persons.***

4. Based on your experience, do you think that the “insignificant subsidiary exemption” would be used by you (or for market practitioners, your clients)?

Yes

No

Please describe the circumstances and refer to Option 1 or 2.

5. If your answer to question 3 is “Yes”, do you agree with

- (a) the proposed materiality threshold under (i) Option 1 or (ii) Option 2?

Yes (*please choose one of the following options*)

Option 1

Option 2

No

Please provide reasons for your views.

***The threshold under option 1 is too small.***

- (b) the proposed bases for assessing the significance of a subsidiary, i.e. the asset ratio, revenue ratio and the profits ratio?

Yes

- ✓ No. The significance of a subsidiary should be determined by (*please specify*): profit test should be excluded.

Please provide reasons for your views.

***Profit test should be excluded as in the case for connected transactions.***

- (c) the proposed additional safeguard to require the consideration ratio be less than 10% if an “insignificant” subsidiary concerned is itself a party to the transaction or its securities/assets are the subject of the transaction?

Yes

- ✓ No

Please provide reasons for your views.

***Do not believe such extra test is necessary.***

- (d) the proposed mechanism for applying the exemption to continuing connected transactions described in paragraph 27 of the Consultation Paper?

Yes

- ✓ No

Please provide reasons for your views.

***The annual reassessment is unduly burdensome and do not believe the further disclosure requirement is meaningful.***

6. If your answers to question 5 are “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If you answer is “No”, please provide reasons and alternative views.

7. If you agree with Option 2, do you think that the definition of “major subsidiary” under Rule 13.25 should be amended to align with that in the “insignificant subsidiary exemption” if adopted?

Yes

No

Please provide reasons for your views.

*Consistency and 5% test it too low under current rules.*

**B. De minimis thresholds that trigger disclosure or shareholders’ approval requirement for connected transactions**

8. (a) For the exemption from independent shareholders’ approval requirement, do you support the proposal to revise the percentage threshold to 5%? If your answer is “No”, please specify the percentage threshold that you consider appropriate.

Yes

No. The percentage threshold should be *(please specify)*: \_\_\_\_\_

Please provide reasons for your views.

*The current thresholds are far too low. This is especially apparent when market capitalisation is extraordinarily low due to market fluctuations.*

(b) For the exemption from all reporting, announcement and independent shareholders' requirements, do you support the proposal to revise the percentage threshold to 1%? If your answer is "No", please specify the percentage threshold that you consider appropriate.

Yes

No. The percentage threshold should be (*please specify*): \_\_\_\_\_

Please provide reasons for your views.

*Current threshold is far too low.*

9. If your answer to question 8 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is "No", please provide reasons and alternative views.

10. Do you agree that a percentage threshold is sufficient to assess whether a connected transaction is eligible for the de minimis exemptions?

Yes

No

Please provide reasons for your views.

*Any extra tests could be too burdensome.*

11. Do you believe that an absolute monetary cap should also be imposed, irrespective of the percentage threshold test for de minimis exemptions? If your answer is yes, please specify the monetary cap that you consider appropriate for fully exempt connected transactions (the monetary cap for connected transactions exempt from independent shareholders' approval would be adjusted proportionately).

Yes. The monetary cap for fully exempt connected transactions should be:

- HK\$100 million
- HK\$200 million
- HK\$500 million
- HK\$1,000 million
- Other monetary cap (*please specify*): HK\$\_\_\_\_\_

✓ No

**C. Transactions that are revenue in nature and in the ordinary and usual course of business**

12. Do you agree that the connected transaction Rules should govern revenue transactions with connected persons?

Yes

✓ No

Please provide reasons for your views.

*There is no reason for a transaction in the ordinary and usual course of business to be subject to such requirements.*

Proposed exemption for revenue transactions with associates of a passive investor

13. Do you agree with the proposed exemption for revenue transactions with associates of a substantial shareholder who is a passive investor in the issuer group?

Yes

No

Please provide reasons for your views.

*But question its usefulness.*

14. Do you think that the proposed exemption should also require the substantial shareholder be a passive investor in the relevant associate, for example, it is not involved in the management of the relevant associate?

Yes

No

Please provide reasons for your views.

*Factor such as board seats is normally not indicative of involvement.*

15. If your answer to question 13 is “Yes”,
- (a) do you agree that the passive investor must be a sovereign fund or an authorised unit trust or mutual fund?

Yes

No

Please provide reasons for your views.

*Too restrictive and question its usefulness.*

(b) do you think that the exemption should be made available to other passive investors? If so, which?

Yes. The exemption should be made available to *(please specify)*:

No

Please provide reasons for your views.

***All revenue transactions should be exempted.***

(c) do you agree that the passive investor must not have representative on the board of directors of the issuer and its subsidiaries?

Yes

No

Please provide reasons for your views.

***Not indicative of involvement.***

(d) do you agree with other proposed conditions set out in paragraph 59 of the Consultation Paper?

Yes

No

Please provide reasons for your views.

***Too restrictive.***

16. If your answer to question 13 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

Proposed modification of the exemption for provision of consumer goods or consumer services

17. Do you agree with the proposed changes to expand the exemption for acquisition of consumer goods or services described in paragraph 66 of the Consultation Paper?

Yes

No

Please provide reasons for your views.

*Agree but this is only a very minor change to the current rules.*

18. If your answer to question 17 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

19. Can you think of any other suggestions to improve the regulation of revenue transactions with connected persons?

Yes

No

If your answer is “Yes”, please elaborate your views.

#### **D. Definition of associate**

##### **(1) Definition of associate in Rule 1.01 (for non-PRC issuer) and Rule 19A.04 (for PRC issuer)**

20. Do you support the proposal to carve out from the definition of associate the following entities?

(i) The holding company of the investee company or a fellow subsidiary of this holding company described in paragraph 68(e) of the Consultation Paper.

Yes

No

(ii) A company controlled by the investee company (not being a subsidiary of the investee company) described in paragraph 68(f) of the Consultation Paper and this company’s subsidiary, holding company and fellow subsidiary.

Yes

No

Please provide reasons for your views.

*The current definition is far too complicated and it may not be possible for issuer to identify the above associates due to lack of information. See also our comment to question 1.*

21. If your answer to question 20 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

**(2) Extended definition of associate in Rule 14A.11(4)**

22. Do you agree with the proposed extension of the definition of associate to a company in which a connected person’s relative has a majority control as described in paragraph 74 of the Consultation Paper?

Yes

No

Please provide reasons for your views.

***We strongly disagree with this. The application is already far too wide and overly burdensome under current definition. Terms such as grandparent, uncle, aunt, cousin, nephew and niece etc. are far too loose and no way to ascertain in practice. Without clear definition of such terms, it is irresponsible to extend the rule.***

23. If your answer to question 22 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

***We do not agree with this proposed change.***

**E. Definition of connected person**

**(1) Non wholly-owned subsidiary**

24. Do you agree with the proposed exemption for (i) transactions between a connected subsidiary and any of its own subsidiaries; and (ii) transactions between any subsidiaries of the connected subsidiary?

Yes

No

Please provide reasons for your views.

*Not in line with spirit of rules.*

25. If your answer to question 24 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

26. Do you agree that a non wholly-owned subsidiary should not be regarded as a connected person in the circumstances described in paragraphs 81(a) and (b) of the Consultation Paper?

Yes

No

Please provide reasons for your views.

*Not in line with spirit of rules.*

27. If your answer to question 26 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

**(2) Promoter of a PRC issuer**

28. Do you support the proposal to delete “promoter” of a PRC issuer from the definition of connected person?

Yes

No

Please provide reasons for your views.

N/A.

29. If your answer to question 28 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

N/A.

**(3) PRC Governmental Body**

30. Do you support the proposal to apply those provisions for PRC Governmental Body in Chapter 19A to connected persons of non-PRC issuers?

Yes

No

Please provide reasons for your views.

N/A.

31. If your answer to question 30 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

N/A.

**(4) Management shareholder of a GEM issuer**

32. Do you support the proposal to delete “management shareholder” from the definition of connected person in the GEM Rules?

Yes

No

Please provide reasons for your views.

N/A.

33. If your answer to question 32 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

N/A.

## **F. Other changes to the connected transaction Rules**

### **(1) Exemption for small transaction involving issue of new securities by subsidiary**

34. Do you agree with the proposal to remove the restriction on applying the de minimis exemptions to an issue of securities by the issuer’s subsidiary?

✓ Yes

No

Please provide reasons for your views.

*Do not see why such transaction should be treated differently.*

35. If your answer to question 34 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

✓ Yes

No

If your answer is “No”, please provide reasons and alternative views.

**(2) Exemption for financial assistance provided on a pro-rata basis**

36. Do you agree with the proposal to clarify that the exemption under Rule 14A.65(3)(b)(i) will apply where the commonly held entity is also a connected person?

Yes

No

Please provide reasons for your views.

*Do not see why such transaction should be treated differently.*

37. If your answer to question 36 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

**(3) Transactions with third parties involving joint investments with connected persons**

38. Do you agree with the proposal to extend the exemption under Note 3 to Rule 14A.13(1)(b)(i) to disposal transactions mentioned in paragraph 108 of the Consultation Paper?

Yes

No

Please provide reasons for your views.

*Do not see why such transaction should be treated differently.*

39. If your answer to question 38 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

**(4) Annual review of continuing connected transactions**

40. Do you agree with the proposed Rule amendments to clarify that the annual review requirements apply to continuing connected transactions that are subject to reporting and disclosure requirements in Chapter 14A?

Yes

No

Please provide reasons for your views.

*The annual review requirements should only be applicable to continuing connected transactions.*

41. If your answer to question 40 is “Yes”, do you agree that the proposed draft Rule amendments in Appendix I to the Consultation Paper will implement our proposal?

Yes

No

If your answer is “No”, please provide reasons and alternative views.

42. Are there any other comments you would like to make?

Yes

No

If your answer is “Yes”, please elaborate your views.

- End -