

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201304.pdf>

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

Chapter III: Plain Language Amendments to Connected Transaction Rules

1. Do you support the proposal to re-write Chapter 14A?



Yes.



No

If your answer is "No", please give reasons for your views.

2. Do you consider that the draft new Chapter 14A in Appendix I of the Consultation Paper accurately reflects the current Chapter 14A?



Yes



No

If your answer is "No", please give reasons for your views.

We have no official comments on this question.

3. Do you have any other comments on the draft Rule amendments in Appendix I of the Consultation Paper?

☐ Yes

☒ No

If your answer is "Yes", please elaborate your views.

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Chapter IV: Scope of Connected Persons and Connected Transactions

Part 1 – Scope of connected persons

A. Definition of connected person

A(1) Connected persons at the issuer level

4. Do you agree that there is no need to extend the definition of connected person to the key management personnel of an issuer's controlling shareholder/holding company?

☒ Yes. The chance of transferring benefit from an issuer's director to the key management personnel of an issuer's controlling shareholder/holding company is low.

☐ No

If your answer is "No", please give reasons for your views.

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A(2) Connected persons at the subsidiary level

5. Do you support:

- (a) the proposal described in paragraph 90(a) of the Consultation Paper to require transactions with persons connected only at the subsidiary level be subject to the approval of the issuer's board members (including independent non-executive directors) who do not have a material interest in the transaction, instead of the approval of shareholders, and disclosed to the shareholders?



Yes. We believe that approval from board members of the issuer should provide sufficient safeguards to the interest of the issuer's shareholders.



No

If your answer is "No", please give reasons for your views.

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- (b) the proposal described in paragraph 90(b) of the Consultation Paper to exempt all transactions between the issuer group and connected persons at the subsidiary level, other than transactions between a subsidiary (or any subsidiary below it) and the person connected with that subsidiary?



Yes. We agree with this proposal and consider that transactions between a subsidiary (or any subsidiary below it) and the person connected with that subsidiary should not be exempt as such connected person may have influence over the subsidiary in question.



No

If your answer is "No", please give reasons for your views.

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B. The deeming provision

6. Do you agree with the proposal to introduce principle-based tests described in paragraph 95 of the Consultation Paper for deeming a person as connected?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

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C. Exceptions to the definition of connected person

C(1) Insignificant subsidiary exemption (if persons connected at the subsidiary level are not excluded from the definition of connected person)

7. Do you agree with the proposal described in paragraph 100 of the Consultation Paper to exempt all persons connected only because of its relationship with the issuer's insignificant subsidiaries?

☒ Yes

☐ No

If your answer is "No", please give reasons for your reviews.

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C(2) Exemption for trustee interests

8. Do you agree with the proposal described in paragraph 105 of the Consultation Paper to exclude from the definition of associate any trustee of an employee share scheme or occupational pension scheme if the connected persons' interests in the scheme are less than 10%?



Yes. We agree to exclude the trustee of an employee share scheme or occupational pension scheme from the definition of connected person.



No

If your answer is "No", please give reasons for your views.

C(3) Exemption for connected person holding an interest in an associate through the issuer

9. Do you agree with the proposal described in paragraph 110 of the Consultation Paper to clarify that the exemption in Note 1 to Rule 14A.11(4) (paragraph 9 of the Guide) would apply if the connected person and his associate's interests in the entity (other than those held through the issuer) are less than 10%?



Yes



No

If your answer is "No", please give reasons for your views.

Part 2 – Scope of connected transactions

D. Financing arrangements with a commonly held entity

10. Do you agree that we should retain the connected transaction requirements for financing arrangements with commonly held entities?



Yes. We agree to retain the connected transaction requirements for financing arrangements with commonly held entities. We also agree that financial

assistance is a higher risk area as it could transfer benefit to connected person directly.

☐ No

If your answer is "No", please give reasons for your views.

E. Buying or selling interests in a target company

11. Do you agree with the proposal described in paragraph 131(a) of the Consultation Paper to restrict Paragraph (i) of Rule 14A.13(1)(b) (paragraphs 27 to 29 of the Guide) to transactions involving controllers at the issuer level?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

12. Do you agree with the proposal described in paragraph 131(b) of the Consultation Paper to exclude disposals of interests in target companies from Paragraph (i) of Rule 14A.13(1)(b) (paragraphs 27 to 29 of the Guide)?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

13. Do you agree with the proposal described in paragraph 131(c) of the Consultation Paper to remove Paragraphs (ii) to (iv) of Rule 14A.13(1)(b) (paragraphs 31 and 32 of the Guide)?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

Chapter V: Connected Transaction Requirements

F. Compliance framework for continuing connected transactions ("CCTs")

14. Do you consider that information provided to shareholders regarding CCTs conducted under framework agreements contains sufficient specificity, in particular as to the methods or procedures to determine pricing for investors to make informed decisions?

☒ Yes.

☐ No

If your answer is "No", please also state the information that you consider should be disclosed in announcements and circulars.

Please give reasons for your views.

We consider most of the issuers disclosed sufficient information regarding CCTs conducted under framework agreements. Although there were views that the current Rules do not provide sufficient information for shareholders, we should take the balance between the demanding of additional information and the significant burdens imposed on the issuers. In addition, the post-vetting regime confers authority to the Stock Exchange to dig out information if the disclosure is considered to be insufficient.

15. Do you consider that the current Rules governing CCTs and market practice in relation to CCTs that are conducted under framework agreements are appropriate? Do they provide sufficient safeguards to ensure that the transactions will be on normal commercial terms and will not be prejudicial to the interests of the issuers and its minority shareholders?

☒ Yes

☐ No

Please give reasons for your views.

It is understandable that certain detailed terms may not be fixed at the time of the entering into of an agreement and framework agreements provide a flexibility. We believe the Listing Rules provide safeguards for shareholders' interest by requesting confirmation from independent non-executive directors and auditors.

F(1) Written agreements

16. Do you agree with the proposal to codify the waiver practice to allow an issuer to obtain a shareholders' mandate (or a mandate from the board if the transactions is exempt from the shareholder approval requirement) in lieu of a framework agreement with the connected person?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

17. If your answer to Question 16 is 'Yes':

- (a) Do you agree to limit the mandate period to not more than 3 years?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

- (b) Do you agree with the waiver conditions described in paragraph 151 of the Consultation Paper?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

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F(2) Annual cap

18. Do you support the proposal to allow the cap for a CCT of a revenue nature be expressed a percentage of the issuer's annual revenue or other financial items in its published audited accounts?

☒ Yes. We believe it is a realistic approach for certain listed issuers. The Stock Exchange may consider to provide the listed issuer the liberty to choose to adopt a percentage of annual revenue or other financial items in its published audited accounts or a monetary cap.

☐ No

If your answer is "No", please give reasons for your views.

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F(3) Auditors' confirmation letter

19. Do you support the proposal described in paragraph 161 of the Consultation Paper to modify the Rules relating to auditors' confirmation on CCTs in line with PN 740?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

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G. Requirements for connected transactions involving option arrangements

G(1) Transfer or non-exercise of option

20. Do you agree with the proposed alternative classification Rules for any transfer or non-exercise of an option?

☐ Yes

☐ No

If your answer is "No", please give reasons for your views.

We have no official comments on this question.

G(2) Termination of option

21. For any termination of an option involving a connected person:

- (a) Do you agree with the proposal described in paragraph 170 of the Consultation Paper to classify the termination as if the option is exercised unless the issuer has no discretion over the termination?

☐ Yes

☐ No

If your answer is "No", please give reasons for your views.

We have no official comments on this question.

- (b) Do you agree that the proposed alternative classification Rules described in paragraph 166 of the Consultation Paper should also apply to the termination?

☐ Yes

☐ No

If your answer is "No", please give reasons for your views.

We have no official comments on this question.

H. Minor changes to clarify the requirements relating to independent advice on connected transactions

22. Do you agree with the proposed Rule change to clarify that the independent board committee also needs to advise whether the connected transaction is on normal commercial terms and in the issuer's ordinary and usual course of business?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

Chapter VI: Exemptions for Connected Transactions

I. De minimis exemptions

23. Do you agree that we should retain the monetary limit of HK\$1 million for fully exempt connected transactions?

☐ Yes

☒ No

If your answer is "No", do you think that the limit should be increased to HK\$2 million, HK\$3 million, HK\$4 million, HK\$5 million, or some other amount (*please specify with reasons*)?

☐ HK\$2 million

☒ HK\$3 million

☐ HK\$4 million

☐ HK\$5 million

☐ Other amount (*please specify*):

Please give reasons for your views.

24. Do you agree that we should retain the monetary limit of HK\$10 million for connected transactions exempt from the shareholder approval requirements?



Yes



No. The appropriate limit should be (*please specify*):

Please give reasons for your views.

J. Exemption for provision of consumer goods or services

25. Do you support the proposal described in paragraph 181 of the Consultation Paper to remove the 1% cap on transaction value for the exemption for provision or receipt of consumer goods or services?



Yes



No

If your answer is "No", please give reasons for your views.

K. Exemption for provision of director's indemnity

26. Do you agree with the proposal described in paragraph 183 of the Consultation Paper to exempt an issuer granting indemnity to a director against liabilities that may be incurred in the course of the director performing his duties, if it does not contravene any law of the issuer's place of incorporation?



Yes

☐ No

If your answer is "No", please give reasons for your views.

27. Do you agree with the proposal described in paragraph 186 of the Consultation Paper to exempt an issuer purchasing and maintaining insurance for a director against liabilities to third parties that may be incurred in the course of performing his duties, if it does not contravene any law of the issuer's place of incorporation?

☒ Yes

☐ No

If your answer is "No", please give reasons for your views.

28. Do you have any other comments or suggestions relating to the connected transaction Rules?

☐ Yes

☒ No

If your answer is "Yes", please elaborate your views.

- End -