

CONSULTATION CONCLUSIONS
ON REVIEW OF CONNECTED TRANSACTION
RULES

March 2014



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

CONTENTS

	Page Number
Executive Summary	1
Chapter 1 Introduction	3
Chapter 2 Market feedback and conclusions	4
Appendix I Revised Chapter 14A of the Main Board Rules	31
Appendix II Revised Chapter 20 of the GEM Rules	65
Appendix III Consequential amendments to the Main Board Rules	98
Appendix IV Consequential amendments to the GEM Rules	107
Appendix V List of respondents	115

EXECUTIVE SUMMARY

1. This paper presents the results of the consultation on a number of proposals to refine the scope of connected persons and connected transactions, fine tune the framework for continuing connected transactions and improve the clarity of the connected transactions Rules.
2. We received 63 submissions from issuers, professional and industry associations, practitioners, individuals and other entities.
3. Except the proposals to retain the current monetary limits for the de minimis exemptions, all our proposals received support from a large majority of respondents (81% or above).
4. In the consultation paper, we sought market view on whether we should exempt connected transactions below the monetary limits of (a) HK\$1 million from the announcement requirement and (b) HK\$10 million from the shareholder approval requirement. A large majority of respondents considered the monetary limit of HK\$1 million to be too low for issuers generally. On the other hand, market views on the monetary limit of HK\$10 million were diverse, and more respondents had concerns about relaxing the monetary limit for material transactions and exempting from shareholder approval. Having considered the responses, we have decided to increase the monetary limit for fully exempt connected transactions to HK\$3 million, and to retain the current monetary limit of HK\$10 million for connected transactions exempt from the shareholder approval requirement.
5. We also sought market view on:
 - two proposed exemptions to further relax the requirements for connected persons at the subsidiary level. The responses indicated strong market support for both proposals, but there were also concerns about possible abuse by the connected persons in some circumstances. We have decided to adopt the proposal that exempts transactions with these connected persons from the independent shareholder approval requirement;
 - the proposal to clarify that the deeming provision will cover a shadow director or de facto controlling shareholder of an issuer and a person who is accustomed to acting according to a connected person's direction or instruction. While a majority of respondents agreed with the proposal, we also note the concern of a number of respondents that the proposal may create uncertainty or confusion as to the application of the proposed deeming provision. We have decided not to adopt the proposal, but we will continue to exercise the deeming provision under the current Rules in individual transactions;

- the proposal to codify the current waiver practice in the Rules to allow an issuer to obtain a shareholder mandate for a CCT over a period of time in lieu of a framework agreement in circumstances where compliance with the requirement would be unduly burdensome. While there was strong market support for the proposal, there are concerns that the codification of the waiver practice in the Rules may create confusion that the threshold for granting the waiver is lowered. We have decided not to adopt the proposal, but will continue to consider individual waiver applications on a case by case basis having regard to their particular facts; and
 - the proposal to allow the cap for a CCT of a revenue nature be expressed as a percentage of the issuer's annual revenue or other financial items in its published accounts (as an alternative to the current requirement for a monetary cap). The proposal was supported by a majority of respondents, but there are also some concerns that percentage caps may not provide shareholders with sufficient information to gauge the size or value of the transactions, and it would be difficult to monitor whether the caps are exceeded as the actual figures may not be readily available from the issuer's books and records. There are also concerns that some caps should not be tied to the revenue figures which bear no direct relationship to the transaction in question. We have decided not to proceed with the proposal.
6. The other proposals in the consultation paper were well-received by the market. We will proceed with these proposals with some amendments identified in Chapter 2.
7. The revised Chapter 14A and the consequential changes to other parts of the Main Board Rules are set out in Appendices I and III respectively. The revised Chapter 20 of the GEM Rules ¹ and the consequential changes to other parts of the GEM Rules are set out in Appendices II and IV respectively. The Rule amendments will take effect from 1 July 2014.

¹ The revised Chapter 20 of the GEM Rules adopts the same text as the revised Chapter 14A of the Main Board Rules except: (i) the revised Chapter 20 of the GEM Rules exclude references to investment companies and depositary receipts which are not applicable to GEM issuers; and (ii) the revised GEM Rule 20.68(15) which is based on the existing GEM Rule 20.59(12) contains different circular content requirement from the revised Main Board Rule 14A.70(15).

CHAPTER 1 INTRODUCTION

8. On 24 April 2013, The Stock Exchange of Hong Kong Limited (**Exchange**), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (**HKEx**), published a Consultation Paper on Review of Connected Transaction Rules. The consultation paper sought comments on proposals to refine the scope of connected persons and connected transactions, fine tune the framework for continuing connected transactions, and improve the clarity of the Rules.

9. The consultation period ended on 26 June 2013. We received a total of 63 submissions:

Category	No. of respondents	%
Issuers	38	60%
Professional and industry associations	7	11%
Market practitioners	13	21%
Individuals and other entities	5	8%
Total	63	100%

10. All submissions are available on the HKEx website at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201304r.htm>, and a list of the respondents is provided in Appendix V.

11. We received support from a large majority of respondents for most of our proposals, with some recommended amendments. Chapter 2 summarises the major comments and our responses.

12. The Rule amendments are available on the HKEx website at: http://www.hkex.com.hk/eng/rulesreg/listrules/mbrulesup/mb_ruleupdate.htm and at http://www.hkex.com.hk/eng/rulesreg/listrules/gemrulesup/gemrule_update.htm. They have been made by the Board of the Exchange and approved by the Securities and Futures Commission (**SFC**), and will become effective on 1 July 2014.

13. We would like to thank all those who shared their views with us during the consultation process.

14. This paper should be read in conjunction with the consultation paper, which is posted on the HKEx website. Listing Rule references in this paper are to the Main Board Rules. Our responses also apply to the corresponding GEM Rules.

CHAPTER 2 MARKET FEEDBACK AND CONCLUSIONS

I. PLAIN LANGUAGE AMENDMENTS TO CONNECTED TRANSACTION RULES

(Consultation Questions 1 to 3)

15. We sought market views on the proposal to simplify the language of the connected transaction Rules by replacing the current Chapter 14A with the Guide on Connected Transaction Rules (the **Guide**) issued in April 2012.

Comments received

16. A large majority of the respondents (81%) supported the proposal to re-write Chapter 14A. 13% of the respondents disagreed and 6% neither agreed nor disagreed.
17. Some opposing respondents considered that the current Chapter 14A is clear and precise and the proposed rewrite of the chapter may require reinterpretation of the literal meaning of the revised Rules. There were views that the Exchange should retain the current Chapter 14A and make changes to particular Rules where the drafting was unclear. The Guide should continue to be used as guidance material to assist issuers to comply with the connected transaction Rules.
18. A number of respondents offered comments on the draft Rules.

Our response

19. We welcome the market support for our plain writing proposal. We will adopt the new Chapter 14A with modifications to take into account the respondents' drafting comments as appropriate.

II. SCOPE OF CONNECTED PERSONS AND CONNECTED TRANSACTIONS

A. Definition of connected person

A(1) Connected persons at the issuer level

(Consultation Question 4)

20. Our definition of connected person includes an issuer's directors, chief executive and substantial shareholder (direct or indirect), and their associates.
21. We sought market views on whether the definition of connected person needs to be extended to the key management personnel of an issuer's controlling shareholder or holding company.

Comments received

22. All but one of the respondents to this question agreed that there is no need to extend the definition of connected person to the key management personnel of an issuer's controlling shareholder or holding company.
23. A respondent commented that some major markets define directors of an issuer's controlling shareholder or holding company as related parties. As a matter of principle, these persons should be included in the definition of connected person to safeguard against their possible influence over the issuer through their positions in the controlling shareholder/ holding company. However, exemptions can be introduced with a view to achieving a balance between protecting investors' interest and easing the administrative burden of issuers.

Our response

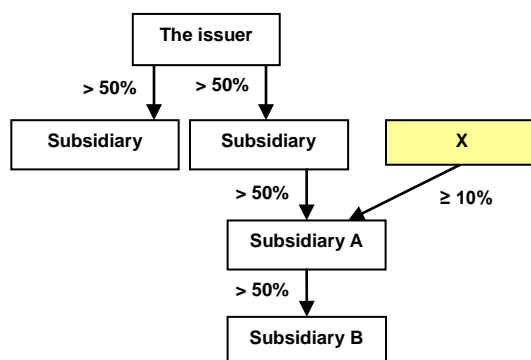
24. As explained in the consultation paper, we have reviewed the rules of other jurisdictions and corporate structures, and consider our current Rules to be suitable in our circumstances. Among other considerations, an individual director at the holding company level cannot influence the issuer on his own. In light of the broad market support, we will not extend the definition of connected person.

A(2) Connected persons at the subsidiary level

(Consultation Questions 5(a) and (b))

25. Our definition of connected person also includes persons connected at the subsidiary level (i.e. a director, chief executive or substantial shareholder of any subsidiary of the issuer, or an associate of any of them).
26. We proposed to relax the requirements for transactions involving persons connected only at the subsidiary level. We sought market views on the following proposed exemptions:
- Proposal (a) – To exempt transactions with persons connected only at the subsidiary level from the independent shareholder approval requirement; and/or
 - Proposal (b) – To exempt all transactions between the issuer group and persons connected at the subsidiary level, other than transactions between a subsidiary (or any subsidiary below it) and the person connected with that subsidiary.

For example, X is a substantial shareholder of Subsidiary A and a connected person at the subsidiary level. Under the proposal, X would be treated as a connected person of the issuer only when it enters into transactions with Subsidiary A or B, given X's potential influence over Subsidiaries A and B.



Comments received

27. Only one respondent to these questions opposed the relaxation of the requirements for transactions involving persons connected only at the subsidiary level. All other respondents either agreed to adopt both proposals (a) and (b), or one of them. Two respondents neither agreed nor disagreed.
28. The respondent opposing both proposals (a) and (b) considered that transactions with subsidiaries' directors may not always be subject to oversight by the issuer's board of directors. A director at the subsidiary level might be able to exert significant influence over the subsidiary and confer benefits to himself through the subsidiary to the detriment of the issuer and its minority shareholders.
29. Of the 60 respondents supporting the proposal(s):
- An overwhelming majority (95%) agreed with both proposals (a) and (b).
 - Some respondents expressed that connected persons at the subsidiary level should be excluded from the definition of connected persons as the potential for abuse is limited. This would be in line with other markets (e.g. Shanghai, Singapore and Australia).
 - Some respondents supported the proposals but considered it unnecessary and overly burdensome to require issuers to disclose and obtain board approval for their transactions with connected persons at the subsidiary level.
 - On the other hand, some respondents commented that the Rules for proposal (a) should clearly provide that the transactions with connected persons at the subsidiary level are subject to the approval of the issuer's board of directors.
 - Two respondents (3%) supported proposal (a) but not proposal (b):
 - One commented that while it supported a relaxation of the requirements for connected persons at the subsidiary level, sufficient safeguards should remain in place to protect investors' rights given the large proportion of issuers that are majority or centrally owned or controlled, and the practice of ownership through a complicated network of interests in group companies. The respondent considered proposal (a) a more appropriate means of balancing the need to regulate and to ease compliance burdens.

- Another respondent opposed proposal (b) as it considered that transactions between a subsidiary and any person connected with that subsidiary should also be exempt. These transactions should be subject to the board approval and disclosure requirements, and not the independent shareholder approval requirement. Its views are in substance proposal (a).
- One respondent supported proposal (b) but not proposal (a). The respondent noted that issuers often hold all or a majority of their assets and conduct their businesses through subsidiaries. The Exchange should consider requiring independent shareholder approval for transactions involving very major subsidiaries and their connected persons.

Our response

30. The responses indicated a strong market support for relaxing the requirements on transactions with connected persons at the subsidiary level. As explained in the consultation paper, an issuer has majority control over its subsidiaries, and any undue influence on a subsidiary by connected persons at the subsidiary level would be subject to check and balance by the issuer's board of directors who should act in the interest of the issuer and its shareholders as a whole. That said, there are also market concerns about possible abuse by connected persons at the subsidiary level in some circumstances.
31. We note that proposal (a) is a more conservative approach and would ease compliance burdens on issuers while at the same time address the needs to safeguard shareholders' interests. Transactions with connected persons at the subsidiary level would be announced by the issuer and as such, subject to oversight by its board of directors. Issuers' announcements would inform shareholders of these transactions. Transactions with these connected persons that are significant to the issuer may still require shareholder approval under the notifiable transaction Rules.
32. We also agree with the comment that Rules for proposal (a) should clearly set out the requirement for board approval of the transactions with connected persons at the subsidiary level. This is an existing requirement for announcements of connected transactions.

33. In light of the above, we will adopt proposal (a) only. We will revise the Rule to specify that the exemption is subject to the approval of the transactions by the board and the independent non-executive directors' confirmation that the terms of the transactions are fair and reasonable, and they are on normal commercial terms and in the interests of the issuer and its shareholders as a whole.
34. We will also amend the Rules to remove the shareholder approval exemption for qualified property acquisitions with connected persons at the subsidiary level² from Chapter 14A. This exemption is redundant in light of the new exemption under proposal (a) which applies to all transactions with connected persons at the subsidiary level.

B. The deeming provision

(Consultation Question 6)

35. Under Chapter 14A, connected persons include persons deemed to be connected by the Exchange in individual transactions of issuers. We proposed to specify in the Rules that the deeming provision will cover the following persons:
 - a shadow director or de facto controlling shareholder of the issuer; and
 - a person who is accustomed to acting according to a connected person's directions or instructions.

Comments received

36. A large majority of respondents (81%) agreed with the proposal. However, a number of them had comments on the proposal:
 - There were views that the Exchange should clarify or provide guidance on how "shadow director" and "de facto controlling shareholder" are defined. A respondent considered that the proposal should not cover de facto controlling shareholders and persons accustomed to acting according to the connected person's direction or instruction because there are no equivalent terms under the Companies Ordinance and it is unclear as to when they would apply.
 - Some respondents commented that a shadow director is already regarded as a director under the Companies Ordinance.

² See current Main Board Rules 14A.72 and 14A.73 or GEM Rules 20.72 and 20.73.

- Some questioned whether the proposal is necessary as the Exchange already has the power to deem a person as connected under the current Rules.
37. 16% of respondents disagreed with the proposal. Some of their reasons are similar to those mentioned in paragraph 36 above. Other comments include that the proposed deeming provision is vague, and issuers would have practical difficulties to identify the types of persons falling under the proposed deeming provision and monitor transactions with these persons. Some respondents raised concern that the proposal would unnecessarily widen the scope of connected persons.

Our response

38. The proposal was intended to help issuers to understand situations where we would exercise the deeming provision. Having considered the concerns raised by a number of respondents, we will not adopt the proposal. Comments from respondents suggest that the proposals are regarded as bright line tests, which would add confusion, rather than add clarity, to the deeming provisions.
39. As stated in the consultation paper, we may deem a person to be connected where it has significant influence over the issuer and stands to benefit from the transaction in question. Our original proposal identified the circumstances where the person, by virtue of his relationship with the issuer or its connected persons, may be in a position to exercise significant influence. However, the deeming provision is a principle based test and judgment still needs to be exercised in considering whether that person stands to benefit from the transaction.

C. Exceptions to the definition of connected person

C(1) Insignificant subsidiary exemption

(Consultation Question 7)

40. The connected transaction Rules exempt transactions between the issuer group and persons connected with the issuer's insignificant subsidiaries, subject to a 10% restriction on the consideration test for any capital transaction between an insignificant subsidiary and the person connected with that subsidiary. An "insignificant subsidiary" is a subsidiary of the issuer whose total assets, profits and revenue are less than (i) 10% under the percentages for each of the latest three financial years; or (ii) 5% under the percentage ratios for the latest financial year.

41. We proposed to exclude all the persons connected with the issuer's insignificant subsidiaries from the definition of connected person, rather than exempting transactions conducted with these persons.

Comments received

42. All respondents to this question agreed with the proposal.

Our response

43. We will adopt the proposal.

C(2) Exemption for trustee interests

(Consultation Question 8)

44. Our definition of associate includes the trustees acting in their capacity as trustees of any trust of which a director, chief executive or substantial shareholder (or if such person is a natural person, any of his immediate family) is a beneficiary.
45. We proposed to exclude from the definition of associate the trustees of an employee share scheme or occupational pension scheme if the connected persons' interests in the scheme are less than 10%.

Comments received

46. All but one of the respondents to this question supported the proposal. Some of them considered that the 10% limit on the connected persons' interests in the scheme is not necessary.
47. A respondent disagreed with the proposal and stated that the proposal is sensible but the 10% threshold is too low given that directors are likely to constitute a large proportion of beneficiaries under an employee share scheme. As the trustees are subject to fiduciary or contractual duties under the trustee deed and are therefore beyond the influence of any individual beneficiary under the scheme, the respondent considered that the trustees of all pension schemes and employee share schemes should be excluded from the definition of associate, which is similar to the approach adopted in the UK and Malaysia.

Our response

48. We do not agree with some respondents' view that a limit on the interests of connected persons in the scheme is unnecessary. We proposed a 10% limit to safeguard against possible abuse by connected persons by setting up a scheme solely or mainly for the benefits of connected persons. The exemption would apply only if the scheme is established for a wide scope of participants and not for the benefits of connected persons primarily.
49. However, we acknowledge that the proposed 10% limit may be too restrictive as it would apply to the interests of all connected persons in the scheme on an aggregate basis, including directors of subsidiaries.
50. One option is to revise the limit at 30% which is in line with the threshold currently adopted for defining an associate³. This is in line with the intention that the exemption is to apply to schemes established for a wide scope of participants. In any event, the proposal exempts only transactions between the issuer and the trustees acting in their capacity as trustees of the scheme (i.e. for all the participants as a whole). Transactions between the issuer and any participant who is a connected person (e.g. granting any share award to such participant) would not be exempt under this proposed exemption.
51. Given the above, we will adopt the proposal with modifications to require that the interests of connected persons in the scheme are, individually or together, less than 30%, and the scheme must be established for a wide scope of participants.

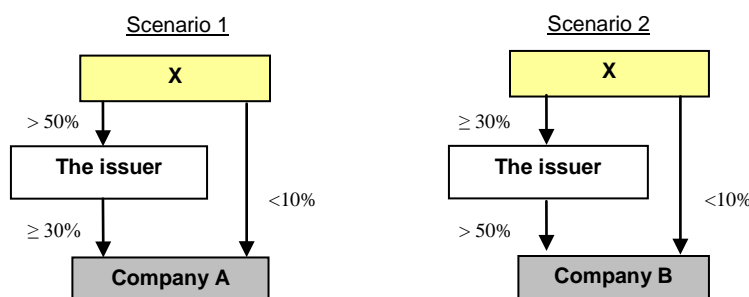
C(3) Exemption for connected person holding an interest in an associate through the issuer

(Consultation Question 9)

52. Under the Rules, associates include an entity in which a connected person has 30% or more direct or indirect interest. Note 1 to Rule 14A.11(4) exempts an entity from being treated as associate if the connected person holds an interest in the entity only through his/its shareholding in the issuer.

³ A person's associates include an entity where the person has an interest of 30% or more in it.

53. We proposed to modify Note 1 to Rule 14A.11(4) to clarify that the exemption would apply if the interests of the connected person and his associates in the entity (other than those held through the issuer) are together less than 10%. Under the proposal, Company A and Company B in Scenarios 1 and 2⁴ below will not be treated as an associate of X if X's direct interest in it is less than 10%.



Comments received

54. All but one of the respondents to this question supported the proposal.
55. One respondent disagreed with the proposal as it considered that Company A should not be treated as an associate of X even if X's direct interest in Company A is 10% or more. The respondent believed that this would otherwise be an extension of the concept of connected subsidiary⁵ and would add burden to issuers when identifying associates of their controlling shareholders.

Our response

56. We consider it necessary to take into account the direct interest of the connected person (X in Scenario 1 above) and his associate in the entity when determining whether an entity is an associate of such person. The proposal provides benchmark for assessing materiality at 10%. This is in line with the current practice (see Listing Decision LD100-1).
57. In light of the market support, we will adopt the proposal.

⁴ The diagrams and examples are provided for illustrative purpose only and are not intended to be exhaustive.

⁵ A "connected subsidiary" is a non-wholly owned subsidiary of an issuer where any connected person(s) of the issuer (other than the level of its subsidiaries) is/are (individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non-wholly owned subsidiary.

D. Financing arrangements with a commonly held entity

(Consultation Question 10)

58. Under the current Rules, connected transactions include an issuer providing financial assistance to, or receiving financial assistance from, a “commonly held entity”⁶. There is an exemption for the issuer providing financial assistance to a commonly held entity on a pro rata basis, or receiving financial assistance from the entity on normal commercial terms and on an unsecured basis.
59. We sought market views on whether to retain the current connected transaction requirements for financing arrangements with commonly held entities.

Comments received

60. An overwhelming majority of the respondents (89%) agreed to retain the current Rules for financing arrangements with commonly held entities. A few respondents suggested relaxing the requirements, for example, by introducing a minimum 10% threshold on issuer’s shareholding interest for defining a commonly held entity, or by modifying the existing pro-rata exemption by reference only to the interests in the entity held by the issuer and the connected persons⁷.
61. Two respondents expressed dissenting views. One commented that it is a common practice for banks to require issuers to provide sole or joint and several guarantees for loans provided to their commonly held entities. It considered that the issuer’s board should be in the best position to determine whether to provide financial support to the commonly held entity. The other respondent considered that the risk of abuse in financing arrangements is not higher than that in other types of transactions that justifies a separate category of transactions with commonly held entities.

Our response

62. As explained in the consultation paper, the current Rules provide safeguard against a connected person at the issuer level from influencing the issuer in financing arrangements with a commonly held entity and benefiting from preferential terms through his/its interest in the entity.

⁶ A “commonly held entity” is a company whose shareholders include (i) the issuer group; and (ii) any connected person(s) at the issuer level who can control the exercise of 10% or more of the voting power at the company’s general meeting.

⁷ The respondent suggested that the interests held by independent persons be disregarded. For example, if Company A is a commonly held entity 40% owned by the issuer, 40% owned by the issuer’s substantial shareholder, and 20% owned by a number of independent third parties, the pro rata exemption should still apply if the shareholder loan is provided by the issuer and its substantial shareholder on a 50:50 basis.

63. In light of the market support, we will retain the current Rules for financing arrangements with commonly held entities.

E. Buying or selling interests in a target company

(Consultation Questions 11 to 13)

64. Under the current Rules, connected transactions include any acquisition or disposal of interests in a target company in the circumstances described in Rule 14A.13(1)(b) where each of the issuer and its controller is, or will be, a shareholder of the target company. A “controller” is a director, chief executive or controlling ($\geq 30\%$) shareholder of the issuer or any of its subsidiaries.
65. We proposed the following changes to Rule 14A.13(1)(b):
- to exclude transactions with third parties involving target companies partly owned by controllers at the subsidiary level;
 - to exclude disposals of interests in target companies from the Rule; and
 - to remove paragraphs (ii) to (iv) of the Rule which apply to transactions involving the issuer (or its controller) acquiring interests in a target company in very specific circumstances where the controller has an insignificant ($< 10\%$) interest in the target company.

Comments received

66. All respondents to these questions supported the proposals.

Our response

67. We will adopt the proposals.

III. CONNECTED TRANSACTIONS REQUIREMENTS

F. Compliance framework for continuing connected transactions (“CCTs”)

(Consultation Questions 14 and 15)

68. Connected transactions include continuing transactions with connected persons. The current compliance framework for CCTs focuses on a number of conditions to safeguard against potential abuse. These include written agreements for a term of three years or less, imposing an annual cap on the CCTs, requiring the CCTs to be conducted on normal commercial terms and requiring independent directors and auditors to review the CCTs annually.
69. There are views that the current Rules governing CCTs do not provide sufficient information for shareholders. In particular, the framework agreements governing CCTs normally do not contain detailed terms about the transactions and the annual review of the CCTs by independent directors and auditors do not provide sufficient assurance that the transactions will be carried on normal commercial terms and will not be prejudicial to the interests of the issuer and its minority shareholders.
70. We sought market views on the current Rules governing CCTs and the market practice relating to CCTs conducted under framework agreements:
- **Consultation question 14** – Do you consider that the 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? If not, what information should be disclosed in announcements and circulars?
 - **Consultation question 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 issuer and its minority shareholders?

Comments received

Consultation question 14

71. All but one of the respondents to this question gave positive response. Their comments include:
- The respondents generally considered that the disclosures about the CCTs made by issuers are sufficient for shareholders to make an informed decision and it is not necessary to expand the current requirements. The pricing guidelines and annual caps for CCTs provide sufficient specificity to allow shareholders to consider whether the transactions are on normal commercial terms.
 - Sufficient protection is given to investors by the combination of the existing disclosure requirements and other safeguards in the Rules such as requirements for transactions to be conducted on normal commercial terms, annual caps for the CCTs, and the annual review by independent non-executive directors and auditors. It is the directors' duty to enter into transactions in the best interest of the issuer.
 - Given the nature of framework agreements, it is impractical to require the agreement to contain specific terms including detailed pricing policies for the CCTs to be conducted in the future. The Rules governing CCTs and the framework agreements should provide issuers with the flexibility to negotiate for the best terms at the time when they conduct the transactions. The important reference points for investors are historical pricing information and ultimately the level of the annual cap. Investors will also have to rely on the annual review by independent directors and auditors.
 - Disclosing the issuer's tender procedures, general pricing policies or guidelines, or basis of price determination is more meaningful to the public than disclosing detailed pricing information for CCTs because the information disclosed should give shareholders assurance that transactions are on normal commercial terms.
72. The respondent who gave negative response to the question considered that for a series of CCTs conducted over a period, it is questionable whether the terms and conditions under the framework agreements, in particular the pricing policy, are sufficient for the minority shareholders to make decision. It suggested that issuers' announcements or circular should contain a negative statement on whether any CCTs will not be on normal commercial terms or will not be in the interest of the issuer and its shareholders as a whole.

Consultation question 15

73. A large majority of the respondents (89%) considered that the current CCT Rules are appropriate and provide sufficient safeguards to ensure that the transactions conducted under framework agreements will be on normal commercial terms and in the interest of shareholders.
74. Two respondents gave negative response to the question. They considered that the annual cap requirement creates unnecessary restrictions on the issuer conducting arms' length transactions. It is difficult for issuers to set annual caps for CCTs and the current practice to calculate the assets, consideration and revenue ratios for assessing the size of CCTs is not appropriate.

Our response

75. In light of the market responses, we do not consider it necessary to introduce additional requirements for CCTs governed by framework agreements. That said, we will issue a guidance letter on the disclosure of pricing terms or mechanism for these CCTs to assist issuers to comply with the Rules.
76. We note some respondents' comments on the annual cap requirements for CCTs. As explained in the consultation paper, we consider it necessary to retain the requirement as annual caps provide information for shareholders to gauge the size of the CCTs and serve as a safeguard against the issuer's over-reliance on connected transactions. Where any percentage ratios calculated based on annual caps are inappropriate or produce anomalous results, we believe that they can be dealt with on a case-by-case basis following the principle of Rule 14.20⁸.

F(1) Written agreements

(Consultation Questions 16 and 17)

77. Under the Rules, an issuer must enter into a written agreement for its CCT, and the period of the agreement must be fixed and generally not exceed three years.
78. We proposed to codify the current waiver practice in the Rules to allow an issuer to obtain a shareholder mandate (or a mandate from the board if the transaction is exempt from the shareholder approval requirement) for CCTs, subject to the following conditions:

⁸ The Rule allows the Exchange to disregard any percentage ratio calculation that produces an anomalous result and to consider any alternative size test proposed by the issuer.

- (a) The issuer must demonstrate that it has practical difficulty in entering into a written agreement with the connected person for the CCTs, and it is unduly burdensome for it to comply with the Rules each time an individual transaction takes place. Factors that the Exchange will consider include the issuer's relationship with the connected person, and the nature of the CCTs including whether they are of a revenue nature in the issuer's ordinary and usual course of business and the frequency or regularity of the transactions.
- (b) The mandate period must not exceed three years.
- (c) The information provided in the issuer's announcement and circular would be comparable to the case where a framework agreement was signed and the terms disclosed in the circular. The issuer's announcement and, if applicable, circular must disclose the terms of the mandate which must include a framework for determining the terms of the transactions as are normally contained in the written framework agreements for CCTs.
- (d) The issuer must re-comply with the announcement and shareholder approval requirements if it proposes to renew the mandate or make a material change to the framework previously disclosed.

Comments received

- 79. All but one of the respondents to these questions supported the proposal to codify the waiver practice into the Rules.
- 80. One respondent disagreed with the argument in the consultation paper. The respondent considered that waivers should be granted based on the merits of individual cases, and codification of waiver practice into the Rules may be open to abuse.

A three year limit on the mandate period

- 81. Of the respondents supporting the proposal, a majority (76%) agreed to limit the mandate period to not more than three years.
- 82. Some respondents disagreed and stated that a longer mandate period should be allowed depending on the circumstances and the nature of the CCTs. This would be in line with the current connected transaction requirements which allow written agreements for CCTs to have a term of longer than three years under exceptional circumstances. Some respondents considered it unduly onerous for an issuer to seek further board or shareholder approval every three years, particularly where there is no material change in the issuer's circumstances since the original mandate was granted. The annual review of CCTs by independent directors already provides sufficient safeguard.

Proposed waiver conditions

83. Of the respondents supporting the proposal, an overwhelming majority (93%) agreed with the proposed waiver conditions.
84. Four respondents disagreed:
- Three respondents reiterated that they disagreed with the condition that limits the mandate period to three years.
 - One respondent disagreed with the condition that requires the issuer to demonstrate that it has practical difficulty in entering into a written agreement with the connected person for the CCTs. This condition is subjective and not necessarily practical to follow.
85. One respondent referred to the proposed waiver condition set out in paragraph 78(c) and asked what information would be regarded as comparable to the case where a framework agreement was signed.

Our response

86. Our proposal intended to codify the circumstances under which a waiver may be granted, which is set out in the Listing Decision (LD82-1).
87. Having considered the respondents' comments, a Rule amendment may create confusion that the threshold for granting the waiver is lowered. In light of this, we will not adopt the proposal. Any individual waiver applications would be considered on a case by case basis having regard to their particular facts.

F(2) Annual cap

(Consultation Questions 18)

88. We proposed to allow the cap for a CCT of a revenue nature be expressed as a percentage of the issuer's annual revenue or other financial items in its published audited accounts (as an alternative to the current requirement for a monetary cap).

Comments received

89. An overwhelming majority of the respondents (92%) supported the proposal. There is a comment that the proposed Rules should clarify that the percentage cap is set with reference to the issuer's audited accounts in the year the CCTs take place (and not published audited accounts).

90. Two respondents disagreed with the proposal. They considered that issuers' revenue streams may not bear any relationship with the amounts of their CCTs. One of the respondents stated that the caps expressed as a percentage of the financial items in the issuers' accounts may be arbitrary. If the caps have a genuine close relationship with the financial items, the issuers should not have practical difficulties in setting monetary caps for their CCTs. The other respondent considered that the proposal would not lessen the issuers' compliance burden as they still need to estimate the amounts of their CCTs.

Our response

91. The proposal was to provide an alternative way for issuers to set annual caps for their CCTs that are of a revenue nature. A respondent proposed to set annual caps by reference to the current year's figures. There are some concerns that percentage caps may not provide shareholders with sufficient information to gauge the size or value of the transactions, and it would be difficult to monitor whether the caps are exceeded as the actual figures may not be readily available from the issuer's books and records. There are also concerns that some caps should not be tied to the revenue figures which bear no direct relationship to the transaction in question.
92. In light of the above concerns, we will not proceed with the proposal.

F(3) Auditors' confirmation letter

(Consultation Questions 19)

93. Under the Rules, an issuer must engage its auditors to perform annual review of its CCTs every year.
94. We proposed to modify the Rules relating to the auditors' confirmation on CCTs in line with Practice Note 740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules) issued by the Hong Kong Institute of Certified Public Accountants.

Comments received

95. All respondents to this question supported the proposal.

Our response

96. We will adopt the proposal.

G. Requirements for connected transactions involving option arrangements

G(1) Transfer or non-exercise of option

(Consultation Question 20)

97. Under the current Rules, an issuer is required to calculate the size of a transfer or non-exercise of an option involving a connected person as if the option is exercised.
98. We proposed to provide an alternative method for classifying the transaction based on the asset and consideration ratios that use the higher of (i) the difference between the exercise price and the value of the assets subject to the option; and (ii) any amount payable or receivable by the group. Under the proposal, the issuer may adopt this alternative classification method if the value of the option assets is readily ascertainable and the issuer is able to provide:
- a valuation of the option assets prepared by an independent expert using generally acceptable methodologies; and
 - a confirmation from the independent non-executive directors and independent financial adviser that the transfer or non-exercise of option is fair and reasonable and in the interests of the issuer and its shareholders as a whole.

If the issuer adopts this alternative method, it must announce the transfer or non-exercise of the option with the views of the independent non-executive directors and the independent financial adviser.

Comments received

99. All but one of the respondents to this question supported the proposal.
100. The opposing respondent considered that the proposed alternative classification Rules may harm minority shareholders by leakage of value. It also considered that the full value of the option asset should be used as the benchmark for regulating transfer or non-exercise of options which shareholders would expect the issuer to exercise.

101. Some respondents who supported the proposal also raised comments:

- It is too restrictive to require an issuer to classify the transfer or non-exercise of an option as if the option is exercised. The decision to transfer or not to exercise an option is often driven by valid commercial reasons and directors are under fiduciary duty to make that decision in the best interest of the company.
- There were concerns about the additional costs and workload that may need to be incurred by an issuer to obtain an independent expert's valuation on the option assets and the confirmation from the independent non-executive directors and the independent financial adviser if it wishes to use the proposed alternative classification Rules.
- The proposed requirement to obtain a valuation of the option is too rigid in the case where the non-exercise of the option is simply a commercial decision not to pursue the project or to pay the relevant expense. It would be sufficient for the issuer to obtain a "fair and reasonable" confirmation from the independent non-executive directors and independent financial adviser and to disclose the basis of their confirmation to the shareholders.

102. A respondent noted that the proposed Rules would require the issuer to calculate the size tests based on the difference between the exercise price and the value of the assets subject to the option. It suggested that the proposed Rules should clarify the different treatments for transactions involving call options and put options. For example, shareholder approval should not be required if the exercise price for a call option held by the issuer is substantially higher than the value of the assets.

Our response

103. As stated in the consultation paper, there are views that the current classification Rules for the transfer or non-exercise of an option are appropriate as they require an issuer to take into account the value of the underlying assets when assessing whether it is in the interest of the issuer to give up its right to buy or sell the assets. On the other hand, there are also views that the current classification Rules are onerous as the size test calculations as if the option is exercised may overstate the value of the transaction.

104. The proposal aims to strike a better balance between the needs to safeguard shareholders' interests and to ease compliance burdens on issuers. We note some respondents' concern about the additional costs for issuers to use the proposed alternative classification Rules, particularly the requirement to obtain an independent valuation of the underlying assets. That said, we are also mindful of the possible abuse of the proposal, and it is necessary to ensure that an issuer would use the alternative classification Rules only if the value of the options is readily ascertainable. Where that is not the case, issuers shall continue to use the current classification Rules.
105. In light of the market support, we will adopt with the proposal with modifications to clarify the different treatments of call options and put options, i.e. the percentage ratios would be calculated using the value of the assets subject to the option over the exercise price in the case of a call options, or the exercise price over the value of the assets subject to the option in the case of a put option.

G(2) Termination of option

(Consultation Questions 21(a) and (b))

106. For the termination of an option, we proposed to:
- (a) align the requirements for the termination of an option with those applicable to the transfer or non-exercise of option such that the termination should be classified as if the option is exercised unless the issuer has no discretion over the termination.
 - (b) apply the proposed alternative classification Rules under paragraph 98 for the termination of an option involving a connected person.

Comments received

107. An overwhelming majority of respondents (90% and 86%) supported the two proposals.
108. One respondent disagreed with the proposal to require an issuer to classify the termination of an option as if the option is exercised as it considered the proposal too restrictive.

109. Three respondents disagreed with the proposed alternative classification Rules. One of them considered that the termination of an option should be exempt if it is made according to the terms of the original agreement and the issuer has already complied with the connected transaction requirements when it first entered into the option arrangement. The reasons provided by the other two opposing respondents are the similar to those set out in paragraphs 100 and 101.

Our response

110. The Rule amendments already clarify that termination of an option is not a transaction if it is made according to the terms of the original agreement and the issuer has no discretion over the termination. If the termination is at the issuer's discretion, it should be regarded as a transaction as it is possible for the connected person to influence the issuer to terminate the option for his own benefits.
111. Our responses to other comments are the same as those set out in paragraphs 103 and 104.
112. We will adopt the proposals with modifications described in paragraph 105.

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

(Consultation Question 22)

113. We proposed to revise the Rules to clarify that the independent board committee needs to advise on whether the connected transaction is on normal commercial terms and in the issuer's ordinary and usual course of business.

Comments received

114. All respondents to this question supported the proposal.

Our response

115. We will proceed with the proposal.

IV. EXEMPTIONS FOR CONNECTED TRANSACTIONS

I. De minimis exemptions

(Consultation Questions 23 and 24)

116. The de minimis exemptions currently provide both percentage and monetary limits to exempt small connected transactions.
117. Under the Rules:
- (a) a connected transaction will be exempt from all reporting, announcement and shareholder approval requirements if each or all of the percentage ratios (except the profits ratio) is/are:
 - (i) less than 0.1%; or
 - (ii) less than 1% for transactions with persons connected with the issuer's subsidiary only; or
 - (iii) equal to or more than 0.1% but less than 5% and the total consideration is less than HK\$1,000,000; and
 - (b) a connected transaction will be exempt from the shareholder approval requirement if each or all of the percentage ratios (except the profits ratio) is/are:
 - (i) less than 5%; or
 - (ii) equal to or more than 5% but less than 25% and the total consideration is less than HK\$10,000,000.
118. We sought market view on whether we should retain the monetary limits of (a) HK\$1 million for fully exempt connected transactions and (b) HK\$10 million for connected transactions exempt from the shareholder approval requirements, and if not what the appropriate limits are.

Comments received

(a) Fully exempt connected transactions

119. A large majority (71%) of respondents disagreed to retain the monetary limit of HK\$1 million for fully exempt connected transactions.

120. They generally considered that the current monetary limit is too low as it was introduced many years ago and that the limit should be increased to take into account factors such as inflation, increased size of issuers, business needs and compliance costs, etc. A few respondents considered that monetary limits are unnecessary as de minimis thresholds should be expressed as a percentage of the issuer's financial figures.
121. 41 respondents gave suggestions on the new monetary limit, including HK\$5 million (63%), HK\$3 million (15%) and other values.

(b) Connected transactions exempt from independent shareholder approval requirement

122. A majority (59%) of respondents disagreed to retain the monetary limit of HK\$10 million for connected transactions exempt from the independent shareholder approval requirement. Their reasons are similar to those set out in paragraph 120.
123. 33 respondents gave suggestions on the new monetary limit, including HK\$50 million (48%), HK\$20 million (15%) and other values.
124. A substantial number of respondents (32%) considered that the current monetary limit should be retained. A respondent commented that shareholder approval is the key protection mechanism in place to safeguard against abusive connected transactions and the Exchange should give careful consideration on any increase in the limit. The respondent considered that transactions with value over HK\$10 million are significant for most issuers in Hong Kong.

Our response

125. The monetary limits provide a more relaxed regime for smaller issuers and reduce their compliance burden when conducting transactions in small dollar value. For example, under the current Rules, an issuer with a market capitalization of less than HK\$1 billion, by enjoying an exemption for connected transactions of up to HK\$1 million, even if they exceed the 0.1% percentage threshold.

(a) Fully exempt connected transactions

126. For fully exempt connected transactions, we acknowledge the views expressed by a majority of respondents that the current limit of HK\$1 million is too low for issuers generally. That said, we note that our current monetary limit is not particularly restrictive compared to those in other Asian markets e.g. Shanghai, Singapore and Malaysia. While there is a majority support for increasing the limit to HK\$5 million, we also note that a number of respondents preferred a more conservative approach.

127. Having considered the respondents' suggestions, we will increase the monetary limit to HK\$3 million.

(b) Connected transactions exempt from independent shareholder approval requirement

128. For connected transactions exempt from shareholder approval, the market views on the current monetary limit were diverse. Respondents had a greater concern about relaxing the monetary limit for material transactions that are exempt from shareholder approval.

129. It is also noted that only Shanghai imposes a monetary limit (RMB30 million), while other major markets (e.g. Singapore, Malaysia, the UK, and Australia) adopt a more conservative approach and do not specify a monetary limit.

130. We do not consider it necessary to increase the monetary limit for larger-size connected transactions. We will retain the current monetary limit of HK\$10 million.

J. Exemption for provision of consumer goods or services

(Consultation Question 25)

131. Currently the Rules exempt provision or receipt of consumer goods to or consumer services from connected persons from all the connected transaction requirements, subject to certain conditions.

132. We propose to remove the 1% cap on transaction value which is one of the conditions for the exemption.

Comments received

133. All respondents to this question supported the proposal.

Our response

134. We will adopt the proposal.

K. Exemption for provision of director's indemnity

(Consultation Questions 26 and 27)

135. We proposed to introduce the following specific exemptions:

- to exempt an issuer granting indemnity to a director against liabilities that may be incurred in the course of the director performing his duties, which does not contravene any law of the issuer's place of incorporation; and
- to exempt an issuer from 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.

Comments received

136. All respondents to these questions supported proposals. Some respondents expressed that the indemnities and insurance should protect directors only if they have performed their duties properly and in accordance with the law of the issuer's place of incorporation.

Our response

137. As set out in the consultation paper, the proposed exemption were made taking into account the Hong Kong laws that govern the ability of companies to indemnify directors against liabilities that may be incurred in the course of performing their duties, and to purchase or maintain insurance for the directors against such liabilities. However, as an issuer or its subsidiary providing the indemnity or purchasing the insurance may be incorporated in other jurisdictions where the laws may be less stringent than those in Hong Kong, we consider it necessary to amend the Rules to require that the indemnity or insurance is in the form permitted under the laws of Hong Kong and where the company providing the indemnity or purchasing the insurance is incorporated outside Hong Kong, the laws of the company's place of incorporation.

138. We will adopt the proposals with the modification described in paragraph 137.

OTHER COMMENTS

139. We have also received other valuable comments on various aspects of the connected transaction Rules from the respondents.
140. We will take account of these comments in our future review of the connected transaction Rules.

CONSULTATION CONCLUSIONS

141. Except for the changes discussed above, we have adopted our proposals and the Main Board Rule amendments largely as those proposed in the consultation paper.
142. We have also amended the GEM Rules in line with the changes to the Main Board Rules.

APPENDIX I REVISED CHAPTER 14A OF THE MAIN BOARD RULES

Chapter 14A

EQUITY SECURITIES

CONNECTED TRANSACTIONS

INTRODUCTION

- 14A.01 This Chapter applies to connected transactions entered into by a listed issuer or its subsidiaries. The connected transaction rules ensure that the interests of shareholders as a whole are taken into account by the listed issuer when the listed issuer's group enters into a connected transaction.
- 14A.02 Connected transactions include both capital and revenue nature transactions. They may be one-off transactions or continuing transactions.
- 14A.03 The general requirements for connected transactions include disclosures in announcements, circulars and annual reports, and shareholders' approval. Persons with material interests cannot vote on the resolution approving the transaction. Continuing connected transactions also require annual reviews by independent non-executive directors and the auditors.
- 14A.04 To reduce listed issuers' compliance burden, exemptions and waivers from all or some of the connected transaction requirements are available for specific categories of connected transactions. These apply to connected transactions that are immaterial to the listed issuer's group, or specific circumstances where the risk of abuse by connected persons is low.
- 14A.05 The rules in this Chapter are illustrated with diagrams. If there is any conflict between the rules and the diagrams, the rules prevail.

DEFINITIONS

- 14A.06 In this Chapter, the following definitions apply:
- (1) a "**30%-controlled company**" means a company held by a person who can:
 - (a) exercise or control the exercise of 30% (or an amount for triggering a mandatory general offer under the Takeovers Code, or for PRC issuers only, an amount for triggering a mandatory general offer or establishing legal or management control over a business enterprise under the PRC law) or more of the voting power at general meetings; or
 - (b) control the composition of a majority of the board of directors;
 - (2) an "**associate**" has the meaning in rules 14A.12 to 14A.15;
 - (3) a "**banking company**" has the meaning in rule 14A.88;

- (4) a “**cap**” has the meaning in rule 14A.53;
- (5) a “**closely allied group of shareholders**” has the meaning in rule 14.45;
- (6) a “**commonly held entity**” has the meaning in rule 14A.27;
- (7) a “**connected person**” has the meaning in rules 14A.07 to 14A.11;
- (8) a “**connected person at the issuer level**” includes:
 - (a) a director, chief executive or substantial shareholder of a listed issuer;
 - (b) a supervisor of a PRC issuer;
 - (c) a person who was a director of the listed issuer in the last 12 months;
and
 - (d) an associate of any of the above persons;
- (9) a “**connected person at the subsidiary level**” means a person who is a connected person only because of the person’s connection with the listed issuer’s subsidiary or subsidiaries;
- (10) a “**connected subsidiary**” has the meaning in rule 14A.16;
- (11) a “**connected transaction**” has the meaning in rules 14A.23 to 14A.30;
- (12) a “**continuing connected transaction**” has the meaning in rule 14A.31;
- (13) a “**controller**” has the meaning in rule 14A.28(1);
- (14) a “**deemed disposal**” has the meaning in rule 14.29;
- (15) a company “**directly held**” by an individual or an entity means that the individual or the entity has a direct ownership interest in the company;
- (16) a “**family member**” has the meaning in rule 14A.12(2)(a);
- (17) “**financial assistance**” has the meaning in rule 14A.24(4);
- (18) an “**immediate family member**” has the meaning in rule 14A.12(1)(a);
- (19) a company “**indirectly held**” by an individual or an entity means that the individual or the entity has an indirect ownership interest in the company through (in the case of an individual) his majority controlled company or companies or (in the case of an entity) its subsidiary or subsidiaries;

- (20) an “**insignificant subsidiary**” or “**insignificant subsidiaries**” has the meaning in rule 14A.09;
- (21) a “**listed issuer**” means a company or other legal person whose securities (including depositary receipts) are listed;
- (22) a “**listed issuer’s group**” means a listed issuer and its subsidiaries, or any of them;
- (23) a “**majority-controlled company**” means a company held by a person who can exercise or control the exercise of more than 50% of the voting power at general meetings, or control the composition of a majority of the board of directors;
- (24) “**material interest**” in a transaction has the meaning in rules 2.15 and 2.16;
- (25) a “**monetary advantage**” has the meaning in rule 14.12;
- (26) “**normal commercial terms or better**” are terms which a party could obtain if the transaction were on an arm’s length basis or terms no less favourable to the listed issuer’s group than terms available to or from independent third parties;
- (27) an “**option**” and terms related to it (including “**exercise price**”, “**premium**” and “**expiration**”) have the meaning in rule 14.72;
- (28) “**ordinary and usual course of business**” of an entity means the entity’s existing principal activities or an activity wholly necessary for its principal activities;
- (29) a “**passive investor**” has the meaning in rule 14A.100;
- (30) “**percentage ratios**” has the meaning in rule 14.04(9);
- (31) a “**PRC Governmental Body**” has the meaning in rule 19A.04;
- (32) a “**profit forecast**” has the meaning in rule 14.61;
- (33) a “**qualified connected person**” means a connected person of the qualified issuer solely because he or it is a substantial shareholder (or its associate) in one or more of the qualified issuer’s non wholly-owned subsidiaries formed to participate in property projects, each of which is single purpose and project specific. This person may or may not have representation on the board of the subsidiary or subsidiaries;
- (34) a “**qualified issuer**” has the meaning in rule 14.04(10B);
- (35) a “**qualified property acquisition**” has the meaning in rule 14.04(10C);

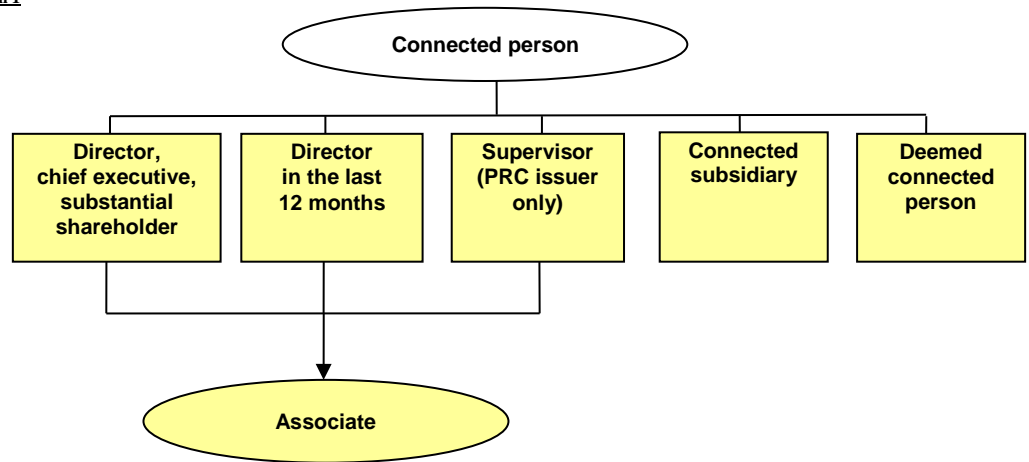
- (36) a “**recognised stock exchange**” means a regulated, regularly operating, open stock market recognised for this purpose by the Exchange;
- (37) a “**relative**” has the meaning in rule 14A.21(1)(a);
- (38) a “**transaction**” has the meaning in rule 14A.24; and
- (39) “**trustees**” has the meaning in rule 14A.12(1)(b) or 14A.13(2).

DEFINITION OF CONNECTED PERSON

14A.07 A “connected person” is:

- (1) a director, chief executive or substantial shareholder of the listed issuer or any of its subsidiaries;
- (2) a person who was a director of the listed issuer or any of its subsidiaries in the last 12 months;
- (3) a supervisor of a PRC issuer or any of its subsidiaries;
- (4) an associate of any of the above persons;
- (5) a connected subsidiary; or
- (6) a person deemed to be connected by the Exchange.

Diagram 1



14A.08 Where a listed issuer is an investment company listed under Chapter 21, its connected persons also include an investment manager, investment adviser or custodian (or any connected person of any of them).

Exceptions

Persons connected with insignificant subsidiaries

14A.09 Rules 14A.07(1) to (3) do not include a director, chief executive, substantial shareholder or supervisor of the listed issuer’s insignificant subsidiary or subsidiaries. For this purpose:

Proposal
C(1)
adopted

- (1) an “insignificant subsidiary” is a subsidiary whose total assets, profits and revenue compared to that of the listed issuer’s group are less than:
 - (a) 10% under the percentage ratios for each of the latest three financial years (or if less, the period since the incorporation or establishment of the subsidiary); or
 - (b) 5% under the percentage ratios for the latest financial year;
- (2) if the person is connected with two or more subsidiaries of the listed issuer, the Exchange will aggregate the subsidiaries’ total assets, profits and revenue to determine whether they are together “insignificant subsidiaries” of the listed issuer; and
- (3) when calculating the percentage ratios, 100% of the subsidiary’s total assets, profits and revenue will be used. If a percentage ratio produces an anomalous result, the Exchange may disregard the calculation and consider alternative test(s) provided by the listed issuer.

PRC Governmental Body

14A.10 The Exchange will not normally treat a PRC Governmental Body as a connected person. The Exchange may request a listed issuer to explain its relationship with a PRC Governmental Body and why it should not be treated as a connected person. If the Exchange decides to treat the PRC Governmental Body as a connected person, the listed issuer must comply with any additional requirements requested by the Exchange.

Depositary

14A.11 For a listing of depositary receipts, a person holding shares of a listed issuer as a depositary will not be treated as:

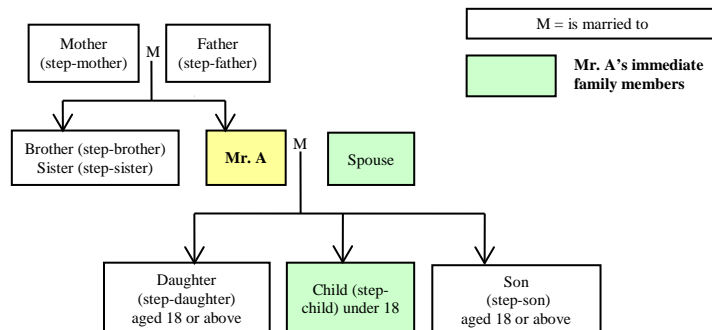
- (1) an associate of the holder of the depositary receipts; or
- (2) a substantial shareholder or controlling shareholder of the listed issuer.

Definition of associate

14A.12 An “associate” of a connected person described in rule 14A.07(1), (2) or (3) who is an individual includes:

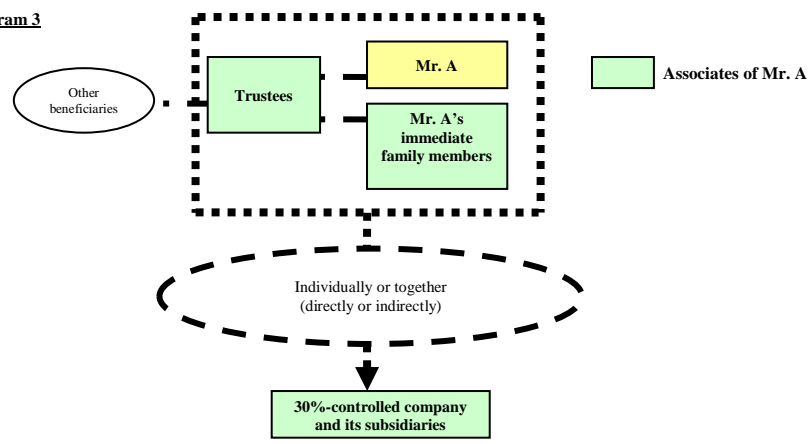
- (1) (a) his spouse; his (or his spouse’s) child or step-child, natural or adopted, under the age of 18 years (each an “immediate family member”);

Diagram 2



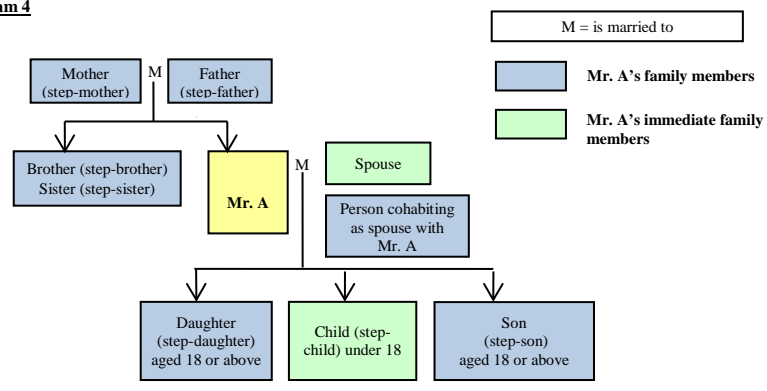
- (b) the trustees, acting in their capacity as trustees of any trust of which the individual or his immediate family member is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object (other than a trust which is an employees' share scheme or occupational pension scheme established for a wide scope of participants and the connected persons' aggregate interests in the scheme are less than 30%) (the "trustees"); or
- (c) a 30%-controlled company held, directly or indirectly, by the individual, his immediate family members and/or the trustees (individually or together), or any of its subsidiaries; or

Diagram 3



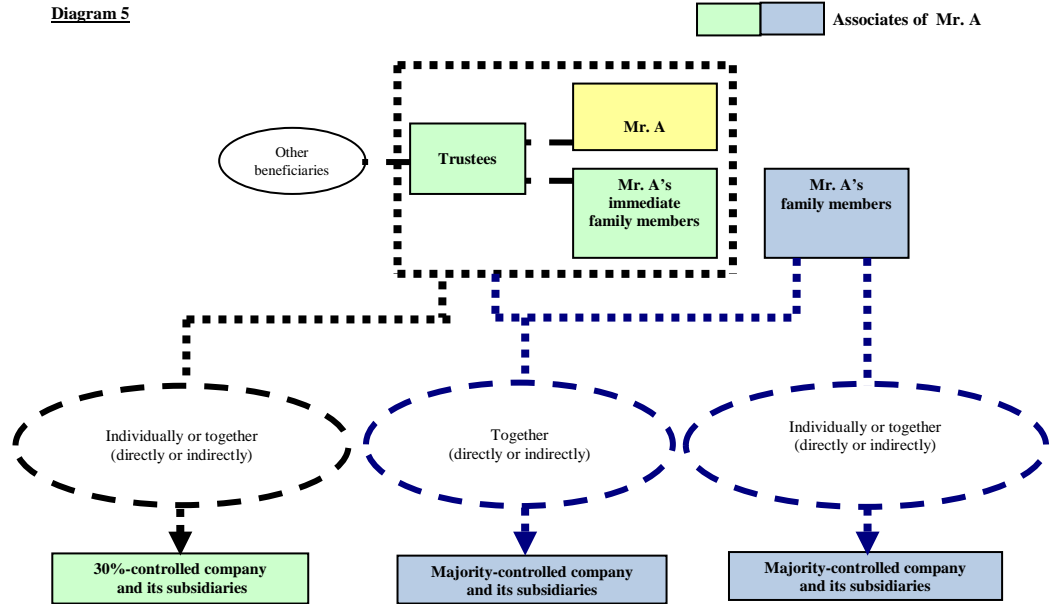
- (2) (a) a person cohabiting with him as a spouse, or his child, step-child, parent, step-parent, brother, step-brother, sister or step-sister (each a "family member"); or

Diagram 4



- (b) a majority-controlled company held, directly or indirectly, by the family members (individually or together), or held by the family members together with the individual, his immediate family members and/or the trustees, or any of its subsidiaries.

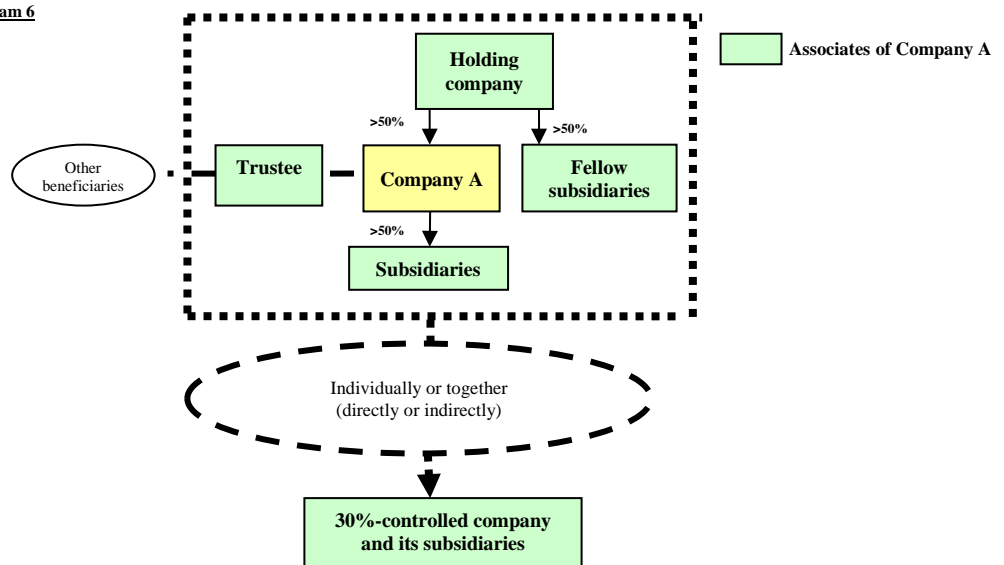
Diagram 5



14A.13 An “associate” of a connected person described in rule 14A.07(1), (2) or (3) which is a company includes:

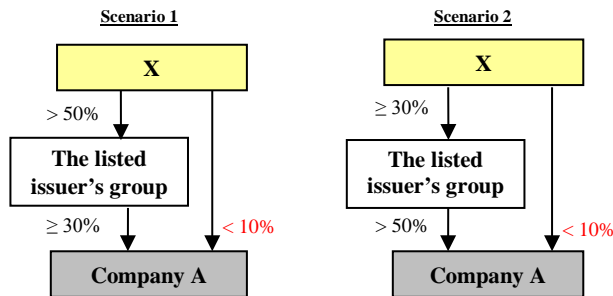
- (1) its subsidiary or holding company, or a fellow subsidiary of the holding company;
- (2) the trustees, acting in their capacity as trustees of any trust of which the company is a beneficiary or, in the case of a discretionary trust, is (to its knowledge) a discretionary object (the “trustees”); or
- (3) a 30%-controlled company held, directly or indirectly, by the company, the companies referred to in (1) above, and/or the trustees (individually or together), or any of its subsidiaries.

Diagram 6



14A.14 A 30%-controlled company held by a person will not be regarded as his or its associate if the person's and his or its associates' interests in the company, other than those indirectly held through the listed issuer's group, are together less than 10%.

Diagram 7



• Company A is not an associate of X because X's interest in Company A, other than those indirectly held through the listed issuer's group, is less than 10%.

14A.15 For PRC issuers only, a person's associates include any joint venture partner of a cooperative or contractual joint venture (whether or not it is a separate legal entity) where:

- (1) the person (being an individual), his immediate family members and/or the trustees; or
- (2) the person (being a company), any company which is its subsidiary or holding company or a fellow subsidiary of the holding company, and/or the trustees,

together directly or indirectly hold 30% (or an amount that would trigger a mandatory general offer or establish legal or management control over a business enterprise under the PRC law) or more in the joint venture's capital or assets contributions, or the contractual share of its profits or other income.

Diagram 8

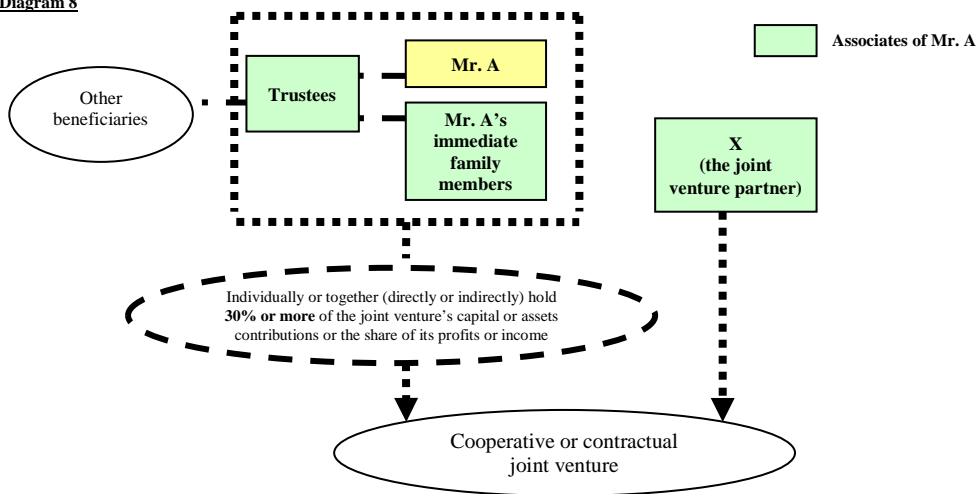
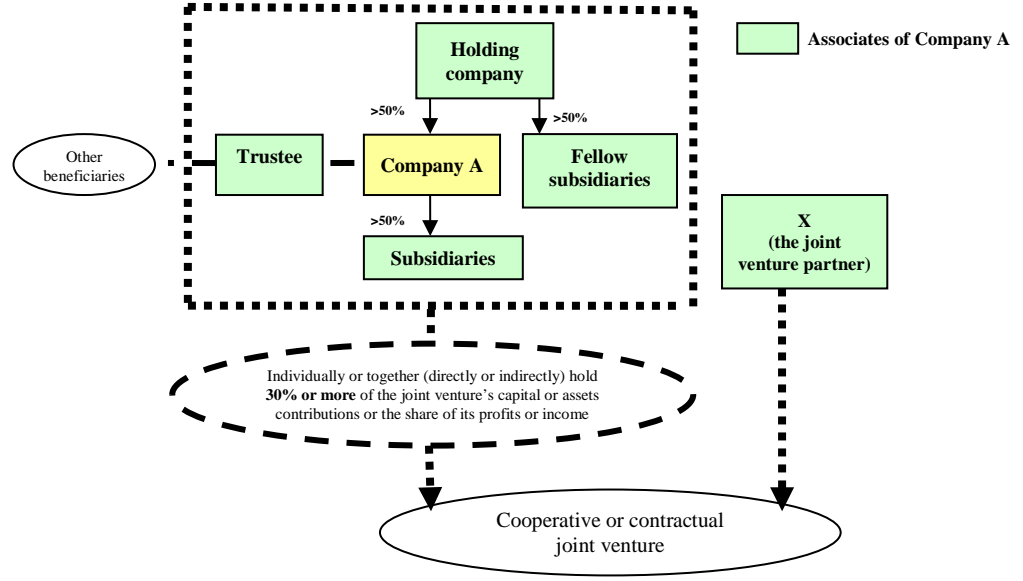


Diagram 9



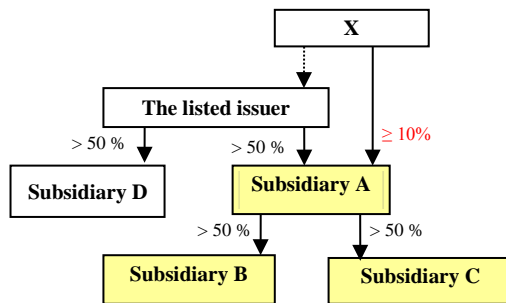
Definition of connected subsidiary

14A.16 A “connected subsidiary” is:

- (1) a non wholly-owned subsidiary of the listed issuer where any connected person(s) at the issuer level, individually or together, can exercise or control the exercise of 10% or more of the voting power at the subsidiary’s general meeting. This 10% excludes any indirect interest in the subsidiary which is held by the connected person(s) through the listed issuer; or
- (2) any subsidiary of a non wholly-owned subsidiary referred to in (1) above.

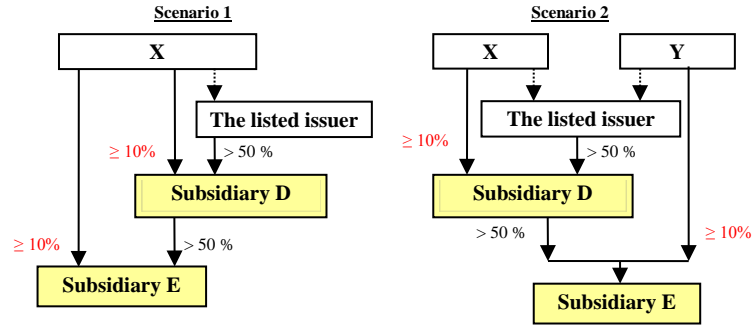
14A.17 If a listed issuer’s subsidiaries are connected persons only because they are the subsidiaries of a connected subsidiary, transactions between these subsidiaries will not be treated as connected transactions.

Diagram 10



- X is a connected person at the issuer level, and he or it has a 10% (or more) shareholding in Subsidiary A.
→ Subsidiary A is a connected subsidiary. (See rule 14A.16(1))
- Subsidiaries B and C are subsidiaries of Subsidiary A.
→ Subsidiaries B and C are also connected subsidiaries. (See rule 14A.16(2))
- Transactions between the listed issuer or Subsidiary D with Subsidiary A/B/C are connected transactions.
- Transactions between any of Subsidiaries A, B and C are not connected transactions if Subsidiaries B and C are connected solely because of their relationship with Subsidiary A. (See rule 14A.17)

Diagram 11

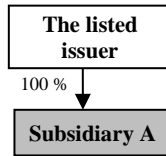


- X and Y are connected persons at the issuer level.
→ Subsidiaries D and E are connected subsidiaries.
- Subsidiary E is a subsidiary of Subsidiary D. However, the exemption in rule 14A.17 does not apply to transactions between them because Subsidiary E is a connected subsidiary not only because of its relationship with Subsidiary D but also its relationship with X or Y.

14A.18 A subsidiary of the listed issuer is not a connected person if:

- (1) it is directly or indirectly wholly-owned by the listed issuer; or

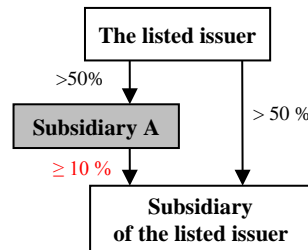
Diagram 12



- (2) it falls under the definition of connected person only because it is:

- (a) a substantial shareholder of another subsidiary of the listed issuer; or

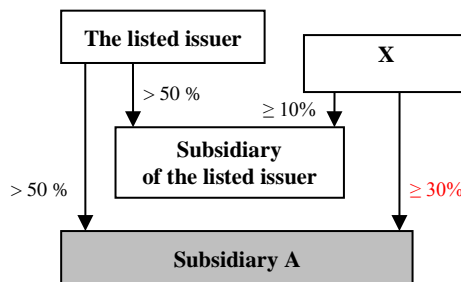
Diagram 13



- Subsidiary A is a substantial shareholder of another subsidiary of the listed issuer. However, this relationship will not make Subsidiary A a connected person of the listed issuer.

- (b) an associate of a director (or a person who was in the past 12 months a director), a chief executive, a substantial shareholder or a supervisor of any subsidiary of the listed issuer.

Diagram 14

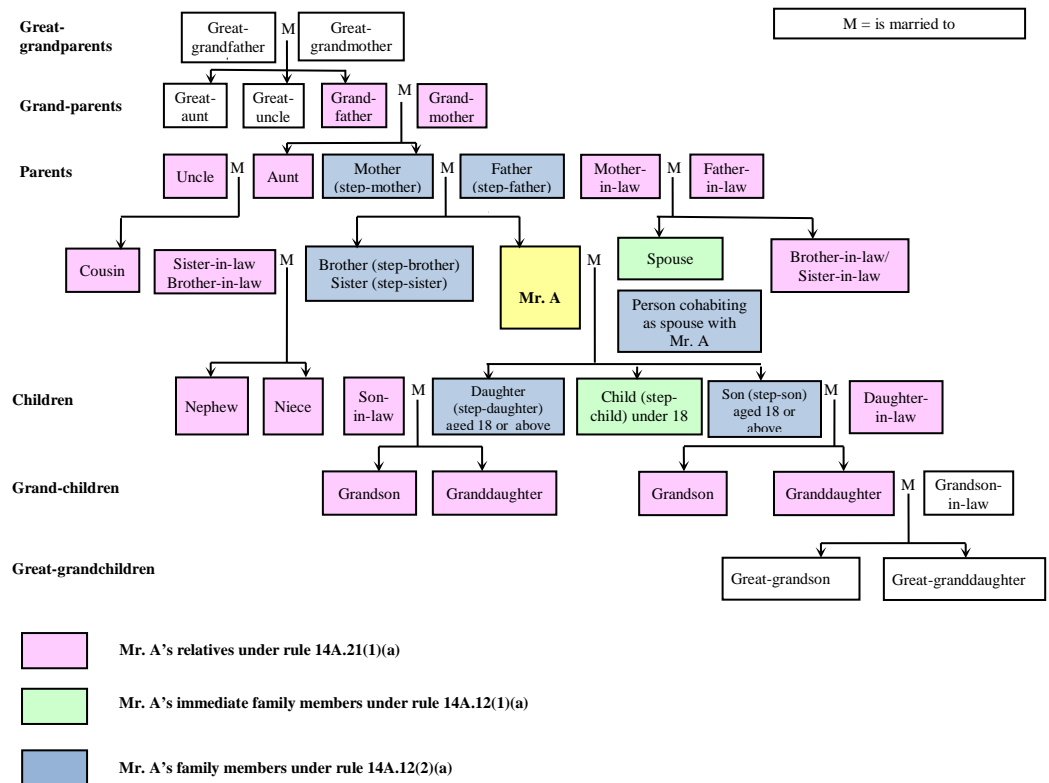


- X is a substantial shareholder of a subsidiary of the listed issuer.
- X holds 30% (or more) shareholding in Subsidiary A.
→ Subsidiary A is an associate of X. However, this relationship will not make Subsidiary A a connected person of the listed issuer because X is only a connected person at the subsidiary level.

Deemed connected persons

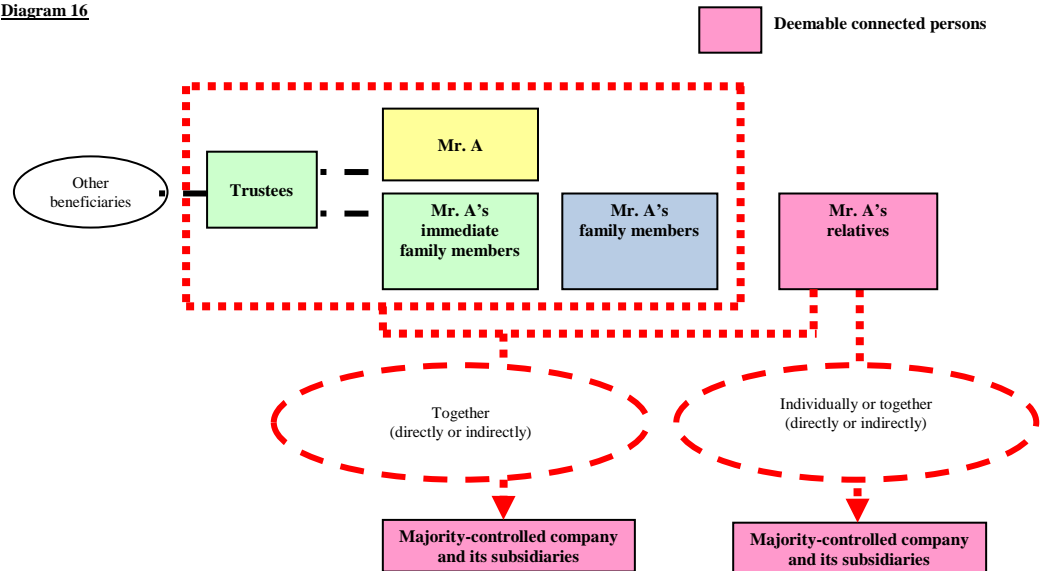
- 14A.19 The Exchange has the power to deem any person to be a connected person.
- 14A.20 A deemed connected person includes a person:
- (1) who has entered, or proposes to enter, into:
 - (a) a transaction with the listed issuer's group; and
 - (b) an agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) with a connected person described in rule 14A.07(1), (2) or (3) with respect to the transaction; and
 - (2) who, in the Exchange's opinion, should be considered as a connected person.
- 14A.21 A deemed connected person also includes a person:
- (1) who is:
 - (a) a father in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandparent, grandchild, uncle, aunt, cousin, nephew or niece (each a "relative") of a connected person described in rule 14A.07(1), (2) or (3); or

Diagram 15



- (b) a majority-controlled company held, directly or indirectly, by the relatives (individually or together) or held by the relatives together with the connected person as described in rule 14A.07(1), (2) or (3), the trustees, his immediate family members and/or family members, or any subsidiary of that majority-controlled company; and

Diagram 16



- (2) whose association with the connected person is such that, in the Exchange's opinion, the proposed transaction should be subject to the connected transaction requirements.

14A.22 The listed issuer must inform the Exchange of any proposed transaction with the person described in rule 14A.20(1) or 14A.21(1) unless it is exempt from all of the connected transaction requirements. It must provide information to the Exchange to demonstrate whether or not the transaction should be subject to connected transaction requirements.

WHAT ARE CONNECTED TRANSACTIONS

14A.23 Connected transactions are transactions with connected persons, and specified categories of transactions with third parties that may confer benefits on connected persons through their interests in the entities involved in the transactions. They may be one-off transactions or continuing transactions.

14A.24 "Transactions" include both capital and revenue nature transactions, whether or not conducted in the ordinary and usual course of business of the listed issuer's group. This includes the following types of transactions:

- (1) any acquisition or disposal of assets by a listed issuer's group including a deemed disposal;
- (2) (a) a listed issuer's group granting, accepting, exercising, transferring or terminating an option to acquire or dispose of assets or to subscribe for securities; or

Note: Terminating an option is not a transaction if it is made under the terms of the original agreement and the listed issuer's group has no discretion over the termination.

- (b) a listed issuer's group deciding not to exercise an option to acquire or dispose of assets or to subscribe for securities;
- (3) entering into or terminating finance leases or operating leases or sub-leases;
- (4) granting an indemnity or providing or receiving financial assistance. "Financial assistance" includes granting credit, lending money, or providing an indemnity against obligations under a loan, or guaranteeing or providing security for a loan;
- (5) entering into an agreement or arrangement to set up a joint venture in any form (e.g. a partnership or a company), or any other form of joint arrangement;
- (6) issuing new securities of the listed issuer or its subsidiaries;
- (7) providing, receiving or sharing services; or
- (8) acquiring or providing raw materials, intermediate products and/or finished goods.

Transactions with connected persons

14A.25 Any transaction between a listed issuer's group and a connected person is a connected transaction.

Transactions with third parties

Financial assistance to or from commonly held entities

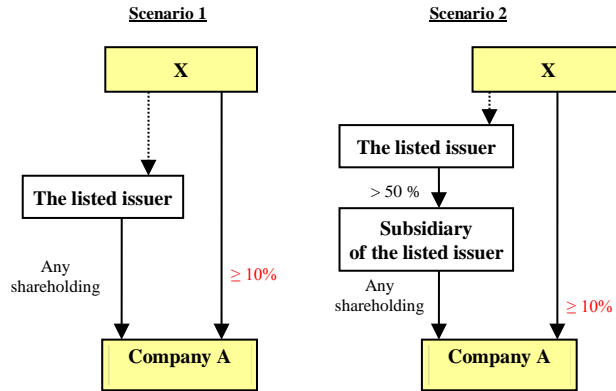
14A.26 Financial assistance provided by a listed issuer's group to, or received by a listed issuer's group from, a commonly held entity is a connected transaction.

Proposal D adopted

14A.27 A "commonly held entity" is a company whose shareholders include:

- (1) a member of the listed issuer's group; and
- (2) any connected person(s) at the issuer level who, individually or together, can exercise or control the exercise of 10% or more of the voting power at the company's general meeting. This 10% excludes any indirect interest held by the person(s) through the listed issuer.

Diagram 17



- X is a connected person at the issuer level
- Both the listed issuer's group and X are shareholders of Company A, and X holds 10% (or more) of shareholding in Company A.
 - Company A is a commonly held entity.
 - Financial assistance provided by the listed issuer's group to, or received by the listed issuer's group from, Company A is a connected transaction.

Other transactions with third parties

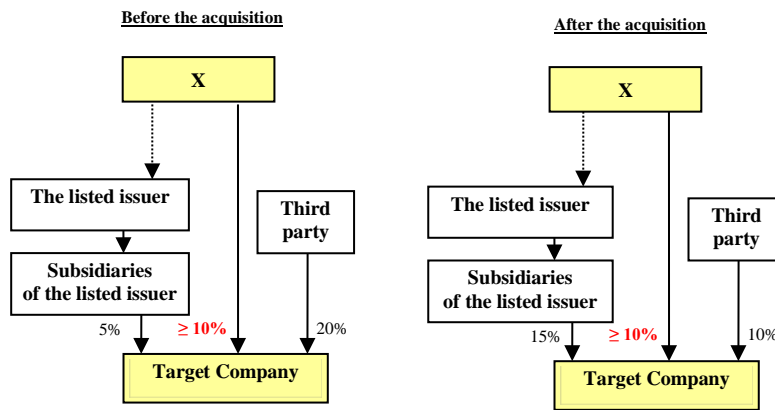
14A.28 A listed issuer's group acquiring an interest in a company (the "target company") from a person who is not a connected person is a connected transaction if the target company's substantial shareholder:

Proposals E(a) to (c) adopted

- (1) is, or is proposed to be, a controller. A "controller" is a director, chief executive or controlling shareholder of the listed issuer; or
- (2) is, or will, as a result of the transaction, become, an associate of a controller or proposed controller.

Note: Acquiring the target company's assets is also a connected transaction if these assets account for 90% or more of the target company's net assets or total assets.

Diagram 18

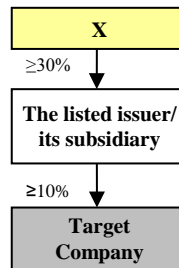


- X is a controller or proposed controller of the listed issuer.
- X is a substantial shareholder of the Target Company.
 - The acquisition of an interest in the Target Company by the listed issuer's group from the third party is a connected transaction.

14A.29 The Exchange may aggregate the interests of the controller and his or its associates in the target company to decide whether they together are the target company's substantial shareholder.

14A.30 Rule 14A.28 does not apply to a listed issuer's proposed acquisition if the controller or his or its associate(s) is or are together the target company's substantial shareholders only because of their indirect shareholdings in the target company held through the listed issuer's group.

Diagram 19



- X is a controller of the listed issuer.
- X only has an indirect interest in the Target Company through the listed issuer's group.
- The acquisition of an interest in the Target Company by the listed issuer's group from any third party (who is not a connected person) is not a connected transaction.

Definition of continuing connected transaction

14A.31 Continuing connected transactions are connected transactions involving the provision of goods or services or financial assistance, which are carried out on a continuing or recurring basis and are expected to extend over a period of time. They are usually transactions in the ordinary and usual course of business of the listed issuer's group.

REQUIREMENTS FOR CONNECTED TRANSACTIONS

14A.32 This section sets out the requirements for connected transactions.

14A.33 Exemptions or waivers from all or some of the requirements are available for specified categories of connected transactions. See rules 14A.73 to 14A.105.

Written agreement

14A.34 The listed issuer's group must enter into a written agreement for a connected transaction.

Announcement

14A.35 The listed issuer must announce the connected transaction as soon as practicable after its terms have been agreed. See rule 14A.68 for the content requirements.

Note: If the connected transaction is subsequently terminated or there is any material variation of its terms or material delay in the completion, the listed issuer must announce this fact as soon as practicable. The listed issuer must also comply with all other applicable provisions under the Rules.

Shareholders' approval

14A.36 The connected transaction must be conditional on shareholders' approval at a general meeting held by the listed issuer. Any shareholder who has a material interest in the transaction must abstain from voting on the resolution.

14A.37 The Exchange may waive the general meeting requirement and accept a written shareholders' approval, subject to the conditions that:

- (1) no shareholder of the listed issuer is required to abstain from voting if a general meeting is held to approve the transaction; and
- (2) the approval is given by a shareholder or a closely allied group of shareholders who (together) hold more than 50% of the voting rights in the general meeting.

14A.38 If the listed issuer discloses inside information to any shareholder in confidence to solicit the written approval, it must ensure that the shareholder is aware that he must not deal in the securities before the information has been made available to the public.

14A.39 If the connected transaction requires shareholders' approval, the listed issuer must (1) set up an independent board committee; and (2) appoint an independent financial adviser.

Independent board committee

14A.40 The independent board committee must, taking into account the recommendation of an independent financial adviser, advise the listed issuer's shareholders:

Proposal H adopted

- (1) whether the terms of the connected transaction are fair and reasonable;
- (2) whether the connected transaction is on normal commercial terms or better and in the ordinary and usual course of business of the listed issuer's group;
- (3) whether the connected transaction is in the interests of the listed issuer and its shareholders as a whole; and
- (4) how to vote on the connected transaction.

14A.41 The independent board committee must consist only of independent non-executive directors who do not have a material interest in the transaction.

14A.42 If all the independent non-executive directors have a material interest in the transaction, an independent board committee will not be formed.

14A.43 If an independent board committee is formed, the circular must include a letter from the independent board committee containing its opinion on the matters in rule 14A.40 and its recommendation.

Independent financial adviser

14A.44 The listed issuer must appoint an independent financial adviser acceptable to the Exchange to make recommendations to the independent board committee and shareholders on the matters in rules 14A.45(1) to (4). The independent financial adviser will give its opinion based on the written agreement for the transaction.

14A.45 The circular must include a letter from the independent financial adviser containing its opinion and recommendation. The independent financial adviser's letter must also set out the reasons for its opinion, the key assumptions made, the factors that it has taken into consideration in forming the opinion, and a statement whether:

- (1) the terms of the connected transaction are fair and reasonable;

- (2) the connected transaction is on normal commercial terms or better and in the ordinary and usual course of business of the listed issuer's group;
- (3) the connected transaction is in the interests of the listed issuer and its shareholders as a whole; and
- (4) the shareholders should vote in favour of the connected transaction.

Circular

14A.46 The listed issuer must send a circular to its shareholders:

- (1) at the same time or before the listed issuer gives notice of the general meeting if the connected transaction is to be approved by shareholders in a general meeting; or
- (2) if no general meeting is to be held, within 15 business days after publication of the announcement. The listed issuer may apply for a waiver from this requirement if it requires additional time to prepare the circular.

Note: See rules 14A.69 and 14A.70 for the content requirements.

14A.47 If the listed issuer expects a delay in distribution of the circular by the date previously announced (see rule 14A.68(11)), it must announce this fact, the reason for the delay and the new expected date of distribution of the circular as soon as practicable and in any event before the original despatch date.

Supplementary circular or announcement

14A.48 If the listed issuer is aware of any material information relating to the connected transaction after it has issued the circular, it must publish this information in a supplementary circular or announcement at least 10 business days before the date of the general meeting to consider the transaction. The meeting must be adjourned by the chairman or, if that is not permitted by the listed issuer's constitutional documents, by resolution to that effect if it is necessary for the compliance with the 10 business day requirement. (See rule 13.73 for the factors that the listed issuer should consider when deciding whether to issue a supplementary circular or announcement.)

Annual reporting

14A.49 The listed issuer must disclose its connected transactions conducted during the financial year in its annual report. See rules 14A.71 and 14A.72 for the content requirements.

Requirements for continuing connected transactions

14A.50 The following additional requirements apply to a continuing connected transaction.

Terms of an agreement

14A.51 A written agreement for a continuing connected transaction must contain the basis for calculating the payments to be made. Examples include sharing of costs incurred by the parties, unit prices for goods or services provided, annual rental for leasing a property, or management fees based on a percentage of the total construction cost.

- 14A.52 The period for the agreement must be fixed and reflect normal commercial terms or better. It must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In this case, the listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

Annual cap

- 14A.53 The listed issuer must set an annual cap (the “cap”) for the continuing connected transaction. The cap must be:
- (1) expressed in monetary terms;
 - (2) determined by reference to previous transactions and figures in the published information of the listed issuer’s group. If there were no previous transactions, the cap must be set based on reasonable assumptions; and
 - (3) approved by shareholders if the transaction requires shareholders’ approval.

Changes to cap or terms of agreement

- 14A.54 The listed issuer must re-comply with the announcement and shareholders’ approval requirements before:
- (1) the cap is exceeded; or
 - (2) it proposes to renew the agreement or to effect a material change to its terms.

Note: The revised or new cap(s) will be used to calculate the percentage ratios for classifying the continuing connected transaction.

Annual review by independent non-executive directors and auditors

- 14A.55 The listed issuer’s independent non-executive directors must review the continuing connected transactions every year and confirm in the annual report whether the transactions have been entered into:
- (1) in the ordinary and usual course of business of the listed issuer’s group;
 - (2) on normal commercial terms or better; and
 - (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the listed issuer’s shareholders as a whole.

- 14A.56 The listed issuer must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the listed issuer’s board of directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:

- (1) have not been approved by the listed issuer’s board of directors;

Proposal
F(3)
adopted

- (2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) have exceeded the cap.

14A.57 The listed issuer must provide a copy of the auditors' letter to the Exchange at least 10 business days before the bulk printing of its annual report.

14A.58 The listed issuer must allow, and ensure that the counterparties to the continuing connected transactions allow, the auditors sufficient access to their records for the purpose of reporting on the transactions.

14A.59 The listed issuer must promptly notify the Exchange and publish an announcement if the independent non-executive directors and/or the auditors cannot confirm the matters as required. The Exchange may require the listed issuer to re-comply with the announcement and shareholders' approval requirements and may impose additional conditions.

When a continuing transaction subsequently becomes connected

14A.60 If the listed issuer's group has entered into an agreement for a fixed period with fixed terms for:

- (1) a continuing transaction, and the transaction subsequently becomes a continuing connected transaction, or

Note: This includes a continuing transaction between the listed issuer's group and a connected person exempt under the "insignificant subsidiary exemption" (see rule 14A.09), and the connected person subsequently cannot meet the conditions for the exemption.

- (2) a continuing connected transaction exempt under the "passive investor exemption" (see rules 14A.99 and 14A.100), and the transaction subsequently cannot meet the conditions for the exemption,

the listed issuer must:

- (a) as soon as practicable after becoming aware of this fact, comply with the annual review and disclosure requirements including publishing an announcement and annual reporting if the listed issuer's group continues to conduct the transaction under the agreement; and
- (b) when the agreement is renewed or its terms are varied, comply with all connected transaction requirements.

Other requirements relating to connected transactions

Options

14A.61 If the listed issuer's group grants an option to a connected person and the listed issuer's group does not have discretion to exercise the option, the transaction is classified as if the option has been exercised (see rule 14A.79(1)). In addition, the listed issuer must announce the following subsequent events as soon as practicable:

- (1) any exercise or transfer of the option by the option holder; and/or
- (2) (if the option is not, or is not to be, exercised in full), the option holder notifying the listed issuer's group that it will not exercise the option, or the expiry of the option, whichever is earlier.

Guaranteed profits or net tangible assets

14A.62 The following apply if the listed issuer's group acquires a company or business from a connected person, and the connected person guarantees the profits or net tangible assets or other matters regarding the financial performance of the company or business.

14A.63 If the actual performance fails to meet the guarantee, the listed issuer must disclose the following in an announcement and in its next annual report:

- (1) the shortfall and any adjustment in the consideration for the transaction;
- (2) whether the connected person has fulfilled its obligations under the guarantee;
- (3) whether the listed issuer's group has exercised any option to sell the company or business back to the connected person or other rights it held under the terms of the guarantee, and the reasons for its decision; and
- (4) the independent non-executive directors' opinion on:
 - (a) whether the connected person has fulfilled its obligations; and
 - (b) whether the decision of the listed issuer's group to exercise or not to exercise any options or rights set out in rule 14A.63(3) is fair and reasonable and in the interests of the shareholders as a whole.

When a proposed transaction becomes connected

14A.64 If a connected transaction is also a notifiable transaction, the listed issuer must also comply with the requirements in Chapter 14.

14A.65 If a listed issuer has entered into an agreement for a proposed transaction which is conditional on shareholders' approval in general meeting and the proposed transaction becomes a connected transaction before the shareholders' approval, the listed issuer must comply with the connected transaction requirements. Where a notice of meeting to approve the proposed transaction has been sent to shareholders, the listed issuer must issue a further announcement and a supplementary circular (see rule 14A.48) to disclose that the transaction has become a connected transaction and the parties that are required to abstain from voting. The circular must also contain information required for a connected transaction circular.

Checklists

- 14A.66 The listed issuer must complete and submit any checklists for connected transactions prescribed by the Exchange from time to time.

CONTENT REQUIREMENTS

- 14A.67 This section sets out the information that a listed issuer must disclose in its announcements, circulars and annual reports.

Announcements

- 14A.68 An announcement for a connected transaction must contain at least:
- (1) the information set out in rules 14.58 to 14.60 (contents of announcements for notifiable transactions);
 - (2) the connected relationship between the parties to the transaction, and the connected person's interests in the transaction;
 - (3) the independent non-executive directors' views on the matters set out in rules 14A.40(1) to (3) if no shareholders' approval is required;
 - (4) if the transaction is a continuing connected transaction, the basis for calculating the payments to be made (see rule 14A.51) and the amount of its cap. If a circular is not required, the listed issuer must also disclose how it determines and calculates the cap, including the assumptions and the amounts of previous transactions which form the basis of the cap;
 - (5) if the transaction involves the listed issuer's group acquiring assets from a connected person, the original acquisition cost of the assets to the connected person;
 - (6) if the transaction involves the listed issuer's group disposing of assets which it has held for 12 months or less, the original acquisition cost of the assets to the listed issuer's group;
 - (7) if the announcement contains a profit forecast of the listed issuer's group or a company which is, or will become, the listed issuer's subsidiary, the information set out in rule 14.62 (requirements for profit forecast in notifiable transaction announcement);
 - (8) if no circular is required, a statement whether any directors of the listed issuer have a material interest in the transaction and, if so, whether they have abstained from voting on the board resolution;
 - (9) a statement that the transaction is subject to shareholders' approval, if applicable;
 - (10) if the transaction is, or will be, approved by way of shareholders' written approval, details of the shareholders giving the approval (including their names and shareholdings in the listed issuer) and the relationship between the shareholders; and
 - (11) if a circular is required, the expected date of distribution of the circular, and, if this is more than 15 business days after the publication of the announcement, the reasons why this is so.

Circulars

14A.69 A circular for a connected transaction must:

- (1) provide a clear and adequate explanation of its subject matter and demonstrate the advantages and disadvantages of the transaction for the listed issuer's group;
- (2) where practicable, include a numerical evaluation;
- (3) contain all information necessary to allow the listed issuer's shareholders to make a properly informed decision; and
- (4) contain a heading drawing attention to the importance of the document and advising shareholders who are in any doubt to consult appropriate independent advisers on the appropriate course of action.

14A.70 The circular must contain at least:

- (1) the Exchange's disclaimer statement (see rule 14.88) on its front cover or inside front cover;
- (2) the information required to be disclosed in the announcement for the transaction;
- (3) the identity and activities of the parties to the transaction and of their ultimate beneficial owner(s);
- (4) the name of the connected person concerned, his or its relationship with any controller and the name and office held by that controller;
- (5) if the transaction is a continuing connected transaction, how the listed issuer determines and calculates the cap, including the assumptions and the amounts of previous transactions which form the basis of the cap;
- (6) a letter from each of the independent financial adviser and, if applicable, the independent board committee containing its opinion and recommendation on the transaction (see rules 14A.43 and 14A.45);
- (7) if the transaction involves the acquisition or disposal of any property interests or a company whose assets consist solely or mainly of property, a valuation and information on the property if required under rule 5.03;
- (8) if the primary significance of the asset (other than property interests) being acquired or disposed of is its capital value, an independent valuation of the asset;
- (9) if the transaction involves an acquisition or disposal of a company or business engaging in an infrastructure project, a business valuation report on that company or business and/or traffic study report on the project. The report(s) must clearly set out:
 - (a) all significant underlying assumptions including the discount rate or growth rate used; and
 - (b) a sensitivity analysis based on different discount rates and growth rates.

If the business valuation is based on a profit forecast, the accounting policies and calculations for the underlying forecasts must be examined and reported on by the auditors or reporting accountants. Any financial adviser mentioned in the circular must also report on the underlying forecasts.

- (10) if the transaction involves the listed issuer's group acquiring a company or business from a connected person, details of:
 - (a) any guarantee of the profits or net tangible assets or other matters regarding the financial performance of the company or business provided by the connected person, and a statement by the listed issuer that it will comply with the disclosure requirements (see rule 14A.63) if the actual performance fails to meet the guarantee; and
 - (b) any option granted to the listed issuer's group to sell the company or business back to the connected person and/or other rights given to the listed issuer's group;
- (11) a statement whether any directors of the listed issuer have a material interest in the transaction and, if so, whether they have abstained from voting on the board resolution;
- (12) a statement that any shareholder with a material interest in the transaction will not vote and the information required in rule 2.17;
- (13) the information set out in the following paragraphs of Appendix 1, Part B:
 - 1 — listed issuer's name
 - 2 — directors' responsibility
 - 5 — expert statements
 - 10 — securities to be issued (if applicable)
 - 29(2) — requirements if there is a profit forecast
 - 32 — no material adverse change
 - 39 — directors' service contracts
 - 40 — directors' interests in assets
 - 43(2)(a) & (c) — documents on display
- (14) information regarding directors' and chief executive's interests in the listed issuer described in paragraphs 34 and 38 of Appendix 1, Part B, and Practice Note 5;
- (15) information regarding the competing interests of each of the directors and any proposed director of the listed issuer's group and his respective close associates as would be required to be disclosed under rule 8.10 as if each of them was a controlling shareholder; and
- (16) any additional information requested by the Exchange.

Annual reports

14A.71 The listed issuer's annual report must contain the following information on the connected transactions conducted in that financial year (including continuing connected transactions under agreements signed in previous years):

- (1) the transaction date;

- (2) the parties to the transaction and a description of their connected relationship;
- (3) a brief description of the transaction and its purpose;
- (4) the total consideration and terms;
- (5) the nature of the connected person's interest in the transaction; and
- (6) for continuing connected transactions,
 - (a) a confirmation from the listed issuer's independent non-executive directors on the matters set out in rule 14A.55; and
 - (b) a statement from the listed issuer's board of directors whether the auditors have confirmed the matters set out in rule 14A.56.

14A.72 When the listed issuer discloses in its annual report information of any related party transaction under the accounting standards for preparing its financial statements, it must specify whether the transaction is a connected transaction under this Chapter and whether it has complied with the requirements in this Chapter.

EXEMPTIONS

14A.73 Exemptions from the connected transaction requirements are available for the following types of transactions:

- (1) de minimis transactions (rule 14A.76);
- (2) financial assistance (rules 14A.87 to 14A.91);
- (3) issues of new securities by the listed issuer or its subsidiary (rule 14A.92);
- (4) dealings in securities on stock exchanges (rule 14A.93);
- (5) repurchases of securities by the listed issuer or its subsidiary (rule 14A.94);
- (6) directors' service contracts and insurance (rules 14A.95 and 14A.96);
- (7) buying or selling of consumer goods or services (rule 14A.97);
- (8) sharing of administrative services (rule 14A.98);
- (9) transactions with associates of passive investors (rules 14A.99 and 14A.100); and
- (10) transactions with connected persons at the subsidiary level (rule 14A.101).

14A.74 The exemptions are broadly divided into two categories: (1) fully exempt from shareholders' approval, annual review and all disclosure requirements; and (2) exempt from shareholders' approval requirement.

14A.75 The Exchange has the power to specify that an exemption will not apply to a particular transaction.

De minimis transactions

14A.76 This exemption applies to a connected transaction (other than an issue of new securities by the listed issuer) conducted on normal commercial terms or better as follows:

- (1) The transaction is fully exempt if all the percentage ratios (other than the profits ratio) are:
 - (a) less than 0.1%;
 - (b) less than 1% and the transaction is a connected transaction only because it involves connected person(s) at the subsidiary level; or
 - (c) less than 5% and the total consideration (or in the case of any financial assistance, the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity) is less than HK\$3,000,000.
- (2) The transaction is exempt from the circular (including independent financial advice) and shareholders' approval requirements if all the percentage ratios (other than the profits ratio) are:
 - (a) less than 5%; or
 - (b) less than 25% and the total consideration (or in the case of any financial assistance, the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity) is less than HK\$10,000,000.

Proposal I
modified

Percentage ratio calculations

14A.77 The methods of percentage ratio calculations set out in Chapter 14 (notifiable transactions) also apply to connected transactions in this Chapter subject to the modifications described in rules 14A.78 to 14A.79.

14A.78 For continuing connected transactions, the listed issuer must calculate the assets ratio, revenue ratio and consideration ratio using the cap as the numerator. If the agreement for the transaction covers over one year, the transaction will be classified based on the largest cap during the term of the agreement.

14A.79 The following applies when calculating percentage ratios for connected transactions involving options:

- (1) if the listed issuer's group grants an option to a connected person and the listed issuer's group does not have discretion to exercise the option, it is classified as if the option has been exercised. The percentage ratios are calculated based on the consideration for the transaction (which includes the premium and the exercise price of the option), the value of the underlying assets, and the revenue attributable to the assets (See rule 14A.61 for the disclosure requirement when the option holder exercises or transfers the option, or when the option expires);

- (2) if the listed issuer's group acquires or accepts an option granted by a connected person where the listed issuer's group has discretion to exercise the option, it is classified based on the amount of the premium payable by the listed issuer's group. However, if the premium represents 10% or more of the sum of the premium and the exercise price, the transaction will be classified as if the option has been exercised (see rule 14A.79(1));
- (3) if the listed issuer's group exercises an option granted by a connected person, it is classified based on the exercise price, the value of the underlying assets, and the revenue attributable to the assets. If the option is exercised in stages, the Exchange may require aggregation of the transactions;
- (4) if the listed issuer's group transfers an option granted by a connected person to a third party, terminates the option or decides not to exercise the option:
 - (a) the listed issuer must classify the transaction as if the option has been exercised. The percentage ratios are calculated based on the exercise price, the value of the underlying assets, and the revenue attributable to the assets, and (if applicable) the consideration for transferring the option, or the amount receivable or payable by the listed issuer's group for terminating the option; or
 - (b) the Exchange may allow the listed issuer to disregard the percentage ratios calculated under paragraph (a) above and to classify the transaction using the asset and consideration ratios calculated based on the higher of:
 - (i) (for a put option held by the listed issuer's group) the exercise price over the value of the assets subject to the option, or (for a call option held by the listed issuer's group) the value of the assets subject to the option over the exercise price; and
 - (ii) the consideration or amount payable or receivable by the listed issuer's group.

These alternative tests would be allowed only if the assets' valuation is provided by an independent expert using generally acceptable methodologies, and the listed issuer's independent non-executive directors and an independent financial adviser have confirmed that the transfer, termination or non-exercise of the option is fair and reasonable and in the interests of the listed issuer and its shareholders as a whole. The listed issuer must announce the transfer, termination or non-exercise of the option with the views of the independent non-executive directors and the independent financial adviser; and
- (5) if the actual monetary value of the premium, the exercise price, the value of the underlying assets and the revenue attributable to the assets have not been determined when the listed issuer's group grants or acquires or accepts the option:

Proposals G(1)&(2) adopted with modification

- (a) the listed issuer must demonstrate to the Exchange's satisfaction the highest possible monetary value for calculating the percentage ratios and classifying the transaction. If the listed issuer is unable to do so, it may be required to comply with all the connected transaction requirements for the transaction; and
- (b) the listed issuer must inform the Exchange when the actual monetary value has been determined. If the transaction falls under a higher classification based on the actual monetary value, the listed issuer must as soon as reasonably practicable announce this fact and comply with the requirements applicable to the higher classification.

Note: The requirements in this rule are the same as the requirements applicable to options under Chapter 14 (notifiable transactions), except that

- 1. *Under Chapter 14, the listed issuer may, at the time of the listed issuer's group acquiring or accepting an option granted by a third party, seek shareholders' approval for its exercise of the option in the future. This is not allowed under this Chapter.*
- 2. *Under Chapter 14, transfer or termination of an option by the listed issuer's group is a transaction which is classified based on the consideration for transferring the option or the amount receivable or payable by the listed issuer's group for terminating the option. Under this Chapter, the transfer or termination is classified as if the option is exercised or based on the alternative tests set out in rule 14A.79(4)(b).*
- 3. *Under Chapter 14, non-exercise of an option is not a transaction. Under this Chapter, the non-exercise is classified as if the option is exercised or based on the alternative tests set out in rule 14A.79(4)(b).*

Exception to percentage ratio calculations

14A.80 If any percentage ratio produces an anomalous result or is inappropriate to the activity of the listed issuer, the Exchange may disregard the ratio and consider alternative test(s) provided by the listed issuer. The listed issuer must seek prior consent of the Exchange if it wishes to apply this rule.

Aggregation of transactions

14A.81 The Exchange will aggregate a series of connected transactions and treat them as if they were one transaction if they were all entered into or completed within a 12-month period or are otherwise related. The listed issuer must comply with the applicable connected transaction requirements based on the classification of the connected transactions when aggregated. The aggregation period will cover 24 months if the connected transactions are a series of acquisitions of assets being aggregated which may constitute a reverse takeover.

14A.82 Factors that the Exchange will consider for aggregation of a series of connected transactions include whether:

- (1) they are entered into by the listed issuer's group with the same party, or parties who are connected with one another;

- (2) they involve the acquisition or disposal of parts of one asset, or securities or interests in a company or group of companies; or
 - (3) they together lead to substantial involvement by the listed issuer's group in a new business activity.
- 14A.83 The Exchange may aggregate all continuing connected transactions with a connected person.
- 14A.84 A listed issuer must consult the Exchange before the listed issuer's group enters into any connected transaction if:
- (1) the transaction and any other connected transactions entered into or completed by the listed issuer's group in the last 12 months fall under any of the circumstances described in rule 14A.82; or
 - (2) the transaction and any other transactions entered into by the listed issuer's group involve the acquisition of assets from a person or group of persons or any of their associates within 24 months after the person(s) gain control (as defined in the Takeovers Code) of the listed issuer.
- 14A.85 The listed issuer must provide information to the Exchange on whether it should aggregate the transactions.
- 14A.86 The Exchange may aggregate a listed issuer's connected transactions even if the listed issuer has not consulted the Exchange.

Financial assistance

Financial assistance provided by the listed issuer's group

- 14A.87 For any financial assistance provided by a banking company in its ordinary and usual course of business to a connected person or commonly held entity:
- (1) the transaction is fully exempt if it is conducted on normal commercial terms or better;
 - (2) the transaction is fully exempt if it is not conducted on normal commercial terms or better but all the percentage ratios (other than the profits ratio) are:
 - (a) less than 0.1%;
 - (b) less than 1% and the transaction is a connected transaction only because it involves connected person(s) at the subsidiary level; or
 - (c) less than 5% and the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity is less than HK\$3,000,000; or
 - (3) the transaction is exempt from the circular, independent financial advice and shareholders' approval requirements if it is not conducted on normal commercial terms or better but all the percentage ratios (other than the profits ratio) are:
 - (a) less than 5%; or

Proposal I modified

- (b) less than 25% and the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity is less than HK\$10,000,000.

14A.88 A “banking company” is a listed issuer or its subsidiary which is a bank, a restricted licence bank or a deposit taking company as defined in the Banking Ordinance, or a bank constituted under appropriate overseas legislation or authority.

14A.89 Financial assistance provided by a listed issuer’s group to a connected person or commonly held entity is fully exempt if it is conducted:

- (1) on normal commercial terms or better; and
- (2) in proportion to the equity interest directly held by the listed issuer or its subsidiary in the connected person or the commonly held entity. Any guarantee given by the listed issuer’s group must be on a several (and not a joint and several) basis.

Financial assistance received by the listed issuer’s group

14A.90 Financial assistance received by a listed issuer’s group from a connected person or commonly held entity is fully exempt if:

- (1) it is conducted on normal commercial terms or better; and
- (2) it is not secured by the assets of the listed issuer’s group.

The listed issuer’s group providing an indemnity for a director

14A.91 Providing an indemnity for a director of the listed issuer or its subsidiaries is fully exempt if:

- (1) the indemnity is for liabilities that may be incurred in the course of the director performing his duties; and
- (2) the indemnity is in a form permitted under the laws of Hong Kong and where the company providing the indemnity is incorporated outside Hong Kong, the laws of the company’s place of incorporation.

Proposal K adopted with modification

Issues of new securities by the listed issuer or its subsidiary

14A.92 An issue of new securities by a listed issuer or its subsidiary to a connected person is fully exempt if:

- (1) the connected person receives a pro rata entitlement to the issue as a shareholder;
- (2) the connected person subscribes for the securities in a rights issue or open offer:
 - (a) through excess application (see rule 7.21(1) or 7.26A(1)); or

- (b) in his or its capacity as an underwriter or sub-underwriter of the rights issue or open offer, and rule 7.21 or 7.26A (arrangements to dispose of any excess securities) has been complied with. In this case, the listing document must contain the terms and conditions of the underwriting arrangement;

Note: Any commission and fees payable by the listed issuer's group to the connected person for the underwriting arrangement are not exempt under this exemption.

- (3) the securities are issued to the connected person under:
 - (a) a share option scheme that complies with Chapter 17; or
 - (b) a share option scheme adopted by the listed issuer before its securities first start dealing on the Exchange, and where the Exchange has approved the listing of the securities to be issued under the scheme; or
- (4) the securities are issued under a "top-up placing and subscription" that meets the following conditions:
 - (a) the new securities are issued to the connected person:
 - (i) after it has reduced its holding in the same class of securities by placing them to third parties who are not its associates under a placing agreement; and
 - (ii) within 14 days from the date of the placing agreement;
 - (b) the number of new securities issued to the connected person does not exceed the number of securities placed by it; and
 - (c) the new securities are issued at a price not less than the placing price. The placing price may be adjusted for the expenses of the placing.

Note: An issue of new securities by a subsidiary of the listed issuer may be exempt as a de minimis transaction.

Dealings in securities on stock exchanges

- 14A.93 Dealing in securities of a target company (i.e. a connected transaction described in rule 14A.28) by the listed issuer's group is fully exempt if it meets the following conditions:
- (1) the dealing in the securities is conducted as part of the ordinary and usual course of business of the listed issuer's group;
 - (2) the securities are listed on the Exchange or a recognised stock exchange;
 - (3) the dealing is carried out on the Exchange or a recognised stock exchange, or if not, no consideration passes to or from a connected person; and
 - (4) the transaction is not made for the purpose of conferring a direct or indirect benefit upon any connected person who is a substantial shareholder of the target company.

Repurchases of securities by the listed issuer or its subsidiary

- 14A.94 Repurchases of own securities by a listed issuer or its subsidiary from a connected person is fully exempt if it is made:
- (1) on the Exchange or a recognised stock exchange, except where the connected person knowingly sells the securities to the listed issuer's group; or
 - (2) in a general offer made under the Code on Share Repurchases.

Directors' service contracts and insurance

- 14A.95 A director entering into a service contract with the listed issuer or its subsidiary is fully exempt.
- 14A.96 Purchase and maintenance of insurance for a director of the listed issuer or its subsidiaries against liabilities to third parties that may be incurred in the course of performing his duties are fully exempt if it is in the form permitted under the laws of Hong Kong and where the company purchasing the insurance is incorporated outside Hong Kong, the laws of the company's place of incorporation.

Proposal K
adopted with
modification

Buying or selling of consumer goods or services

- 14A.97 A listed issuer's group buying consumer goods or services as a customer from, or selling consumer goods or services to, a connected person on normal commercial terms or better in its ordinary and usual course of business is fully exempt if it meets the following conditions:
- (1) the goods or services must be of a type ordinarily supplied for private use or consumption;
 - (2) they must be for the buyer's own consumption or use, and not be:
 - (a) processed into the buyer's products, or for resale; or
 - (b) used by the buyer for any of its businesses or contemplated businesses. This condition does not apply if the listed issuer's group is the buyer and there is an open market and transparency in the pricing of the goods or services;
 - (3) they must be consumed or used by the buyer in the same state as when they were bought; and
 - (4) the transaction must be made on no more favourable terms to the connected person, or no less favourable terms to the listed issuer's group, than those available from independent third parties.

Proposal J
adopted

Note: Examples of consumer goods and services are:

- (1) *Meals consumed by a director at a restaurant owned by the listed issuer's group.*

- (2) *A director buying groceries for his own use at a retail store operated by the listed issuer's group.*
- (3) *Utilities provided by the listed issuer's group to a director's apartment.*
- (4) *Utilities provided by a connected person to the listed issuer's group where the prices are published or publicly quoted and apply to other independent consumers.*

Sharing of administrative services

14A.98 Administrative services shared between the listed issuer's group and a connected person on a cost basis are fully exempt, provided that the costs are identifiable and are allocated to the parties involved on a fair and equitable basis.

Note: Examples of shared administrative services are shared secretarial, legal and staff training services.

Transactions with associates of passive investors

14A.99 A connected transaction conducted between the listed issuer's group and an associate of a passive investor is fully exempt if it meets the following conditions:

- (1) the passive investor is a connected person only because it is a substantial shareholder of the listed issuer and/or any of its subsidiaries;
- (2) the passive investor
 - (a) is not a controlling shareholder of the listed issuer or its subsidiaries;
 - (b) does not have any representative on the board of directors of the listed issuer or its subsidiaries, and is not involved in the management of the listed issuer's group (including having any influence over the management of the listed issuer's group through negative control (e.g. its veto rights) on material matters of the listed issuer's group);
 - (c) is independent of the directors, chief executive, controlling shareholder(s) and any other substantial shareholder(s) of the listed issuer or its subsidiaries; and
- (3) the transaction is of a revenue nature in the ordinary and usual course of business of the listed issuer's group, and conducted on normal commercial terms or better.

14A.100 A "passive investor" is a substantial shareholder of the listed issuer and/or any of its subsidiaries that:

- (1) is a sovereign fund, or a unit trust or mutual fund authorised by the Securities and Futures Commission or an appropriate overseas authority; and
- (2) has a wide spread of investments other than the securities of the listed issuer's group and the associate that enters into the transaction with the listed issuer's group.

Transactions with connected persons at the subsidiary level

14A.101 A connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if:

Proposal
A(2)(a)
adopted

- (1) the listed issuer's board of directors have approved the transactions; and
- (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuer and its shareholders as a whole.

Note: In the case of formation of a joint venture by a qualified issuer and a qualified connected person to make a qualified property acquisition, the qualified issuer must announce the transaction as soon as practicable after receiving notification of the success of the bid by the joint venture. If any details of the acquisitions or the joint venture required to be disclosed are not available when the qualified issuer publishes the initial announcement, it must publish subsequent announcement(s) to disclose the details as soon as practicable after they have been agreed or finalized.

WAIVERS

14A.102 The Exchange may waive any requirements under this Chapter in individual cases, subject to any conditions that it may impose.

Transactions relating to non-executive directors

14A.103 The Exchange may waive all or some of the connected transaction requirements for a connected transaction with a non-executive director of the listed issuer or its subsidiaries if:

- (1) the transaction is connected only because of the interest of a non-executive director; and
- (2) the director does not control the listed issuer's group, and his principal business interest is not the listed issuer's group.

Where a waiver is granted from the shareholders' approval requirement under this rule, the Exchange may require the listed issuer's auditor or an acceptable financial adviser to give the opinion that the transaction is fair and reasonable to the shareholders as a whole.

**Provision of guarantees to connected subsidiaries or commonly held entities
for public sector contracts awarded by tender**

- 14A.104 The Exchange may waive all or some of the connected transaction requirements for a joint and several guarantee or indemnity provided by the listed issuer's group to a third party creditor for the obligations of a connected subsidiary or a commonly held entity if:
- (1) the guarantee or indemnity is required for a government or public sector contract awarded by tender;
 - (2) each of the other shareholders of the connected subsidiary or commonly held entity has given a similar joint and several guarantee or indemnity to the third party creditor; and
 - (3) each of the other shareholders of the connected subsidiary or commonly held entity has agreed to indemnify the listed issuer's group for the liability guaranteed, or indemnified at least in proportion to its equity interest in the subsidiary or entity. The listed issuer must satisfy the Exchange that such shareholder indemnity is sufficient.

Continuing connected transactions of new applicants

- 14A.105 The Exchange may waive the announcement, circular and shareholders' approval requirements for continuing connected transactions entered into by a new applicant or its subsidiaries. The new applicant must disclose in the listing document its sponsor's opinion on whether the transactions are in the ordinary and usual course of business of the listed issuer's group, on normal commercial terms or better, are fair and reasonable and in the interests of the shareholders as a whole.

APPENDIX II REVISED CHAPTER 20 OF THE GEM RULES

Chapter 20

EQUITY SECURITIES

CONNECTED TRANSACTIONS

INTRODUCTION

- 20.01 This Chapter applies to connected transactions entered into by a listed issuer or its subsidiaries. The connected transaction rules ensure that the interests of shareholders as a whole are taken into account by the listed issuer when the listed issuer's group enters into a connected transaction.
- 20.02 Connected transactions include both capital and revenue nature transactions. They may be one-off transactions or continuing transactions.
- 20.03 The general requirements for connected transactions include disclosures in announcements, circulars and annual reports, and shareholders' approval. Persons with material interests cannot vote on the resolution approving the transaction. Continuing connected transactions also require annual reviews by independent non-executive directors and the auditors.
- 20.04 To reduce listed issuers' compliance burden, exemptions and waivers from all or some of the connected transaction requirements are available for specific categories of connected transactions. These apply to connected transactions that are immaterial to the listed issuer's group, or specific circumstances where the risk of abuse by connected persons is low.
- 20.05 The rules in this Chapter are illustrated with diagrams. If there is any conflict between the rules and the diagrams, the rules prevail.

DEFINITIONS

- 20.06 In this Chapter, the following definitions apply:
- (1) a "**30%-controlled company**" means a company held by a person who can:
 - (a) exercise or control the exercise of 30% (or an amount for triggering a mandatory general offer under the Takeovers Code, or for PRC issuers only, an amount for triggering a mandatory general offer or establishing legal or management control over a business enterprise under the PRC law) or more of the voting power at general meetings; or
 - (b) control the composition of a majority of the board of directors;
 - (2) an "**associate**" has the meaning in rules 20.10 to 20.13;
 - (3) a "**banking company**" has the meaning in rule 20.86;

- (4) a “**cap**” has the meaning in rule 20.51;
- (5) a “**closely allied group of shareholders**” has the meaning in rule 19.45;
- (6) a “**commonly held entity**” has the meaning in rule 20.25;
- (7) a “**connected person**” has the meaning in rules 20.07 to 20.09;
- (8) a “**connected person at the issuer level**” includes:
 - (a) a director, chief executive or substantial shareholder of a listed issuer;
 - (b) a supervisor of a PRC issuer;
 - (c) a person who was a director of the listed issuer in the last 12 months;
and
 - (d) an associate of any of the above persons;
- (9) a “**connected person at the subsidiary level**” means a person who is a connected person only because of the person’s connection with the listed issuer’s subsidiary or subsidiaries;
- (10) a “**connected subsidiary**” has the meaning in rule 20.14;
- (11) a “**connected transaction**” has the meaning in rules 20.21 to 20.28;
- (12) a “**continuing connected transaction**” has the meaning in rule 20.29;
- (13) a “**controller**” has the meaning in rule 20.26(1);
- (14) a “**deemed disposal**” has the meaning in rule 19.29;
- (15) a company “**directly held**” by an individual or an entity means that the individual or the entity has a direct ownership interest in the company;
- (16) a “**family member**” has the meaning in rule 20.10(2)(a);
- (17) “**financial assistance**” has the meaning in rule 20.22(4);
- (18) an “**immediate family member**” has the meaning in rule 20.10(1)(a);
- (19) a company “**indirectly held**” by an individual or an entity means that the individual or the entity has an indirect ownership interest in the company through (in the case of an individual) his majority controlled company or companies or (in the case of an entity) its subsidiary or subsidiaries;

- (20) an “**insignificant subsidiary**” or “**insignificant subsidiaries**” has the meaning in rule 20.08;
- (21) a “**listed issuer**” means a company or other legal person whose securities are listed;
- (22) a “**listed issuer’s group**” means a listed issuer and its subsidiaries, or any of them;
- (23) a “**majority-controlled company**” means a company held by a person who can exercise or control the exercise of more than 50% of the voting power at general meetings, or control the composition of a majority of the board of directors;
- (24) “**material interest**” in a transaction has the meaning in rules 2.26 and 2.27;
- (25) a “**monetary advantage**” has the meaning in rule 19.12;
- (26) “**normal commercial terms or better**” are terms which a party could obtain if the transaction were on an arm’s length basis or terms no less favourable to the listed issuer’s group than terms available to or from independent third parties;
- (27) an “**option**” and terms related to it (including “**exercise price**”, “**premium**” and “**expiration**”) have the meaning in rule 19.72;
- (28) “**ordinary and usual course of business**” of an entity means the entity’s existing principal activities or an activity wholly necessary for its principal activities;
- (29) a “**passive investor**” has the meaning in rule 20.98;
- (30) “**percentage ratios**” has the meaning in rule 19.04(9);
- (31) a “**PRC Governmental Body**” has the meaning in rule 25.04(2);
- (32) a “**profit forecast**” has the meaning in rule 19.61;
- (33) a “**qualified connected person**” means a connected person of the qualified issuer solely because he or it is a substantial shareholder (or its associate) in one or more of the qualified issuer’s non wholly-owned subsidiaries formed to participate in property projects, each of which is single purpose and project specific. This person may or may not have representation on the board of the subsidiary or subsidiaries;
- (34) a “**qualified issuer**” has the meaning in rule 19.04(10B);
- (35) a “**qualified property acquisition**” has the meaning in rule 19.04(10C);

(36) a “**recognised stock exchange**” means a regulated, regularly operating, open stock market recognised for this purpose by the Exchange;

(37) a “**relative**” has the meaning in rule 20.19(1)(a);

(38) a “**transaction**” has the meaning in rule 20.22; and

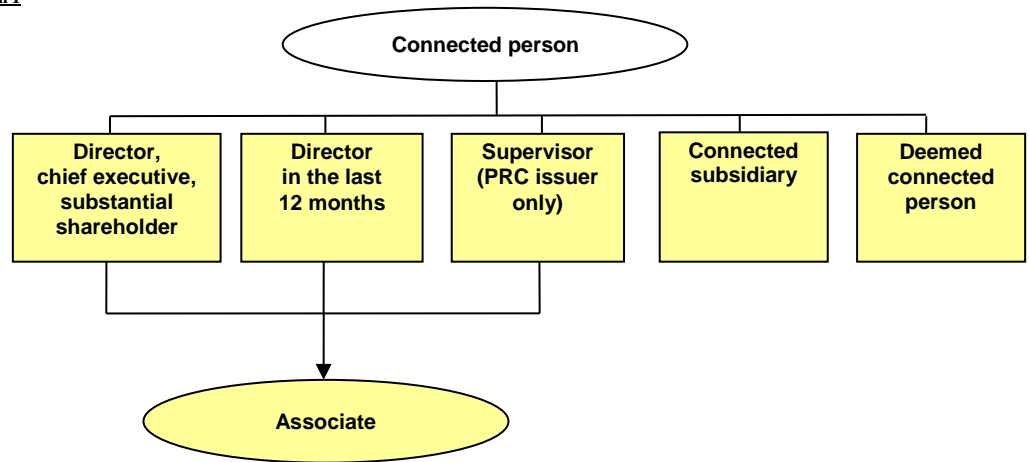
(39) “**trustees**” has the meaning in rule 20.10(1)(b) or 20.11(2).

DEFINITION OF CONNECTED PERSON

20.07 A “connected person” is:

- (1) a director, chief executive or substantial shareholder of the listed issuer or any of its subsidiaries;
- (2) a person who was a director of the listed issuer or any of its subsidiaries in the last 12 months;
- (3) a supervisor of a PRC issuer or any of its subsidiaries;
- (4) an associate of any of the above persons;
- (5) a connected subsidiary; or
- (6) a person deemed to be connected by the Exchange.

Diagram 1



Exceptions

Persons connected with insignificant subsidiaries

20.08 Rules 20.07(1) to (3) do not include a director, chief executive, substantial shareholder or supervisor of the listed issuer’s insignificant subsidiary or subsidiaries. For this purpose:

Proposal
C(1)
adopted

- (1) an “**insignificant subsidiary**” is a subsidiary whose total assets, profits and revenue compared to that of the listed issuer’s group are less than:

- (a) 10% under the percentage ratios for each of the latest three financial years (or if less, the period since the incorporation or establishment of the subsidiary); or
 - (b) 5% under the percentage ratios for the latest financial year;
- (2) if the person is connected with two or more subsidiaries of the listed issuer, the Exchange will aggregate the subsidiaries' total assets, profits and revenue to determine whether they are together "insignificant subsidiaries" of the listed issuer; and
 - (3) when calculating the percentage ratios, 100% of the subsidiary's total assets, profits and revenue will be used. If a percentage ratio produces an anomalous result, the Exchange may disregard the calculation and consider alternative test(s) provided by the listed issuer.

PRC Governmental Body

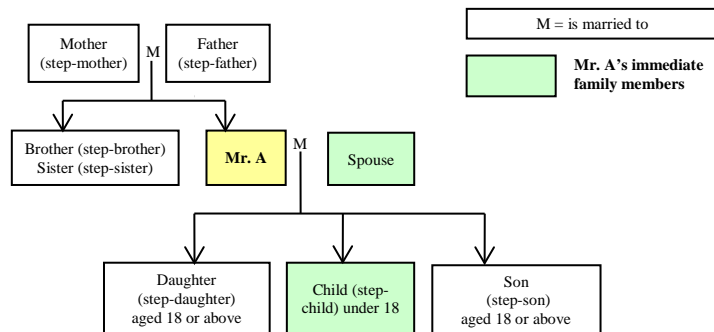
20.09 The Exchange will not normally treat a PRC Governmental Body as a connected person. The Exchange may request a listed issuer to explain its relationship with a PRC Governmental Body and why it should not be treated as a connected person. If the Exchange decides to treat the PRC Governmental Body as a connected person, the listed issuer must comply with any additional requirements requested by the Exchange.

Definition of associate

20.10 An "associate" of a connected person described in rule 20.07(1), (2) or (3) who is an individual includes:

- (1) (a) his spouse; his (or his spouse's) child or step-child, natural or adopted, under the age of 18 years (each an "immediate family member");

Diagram 2

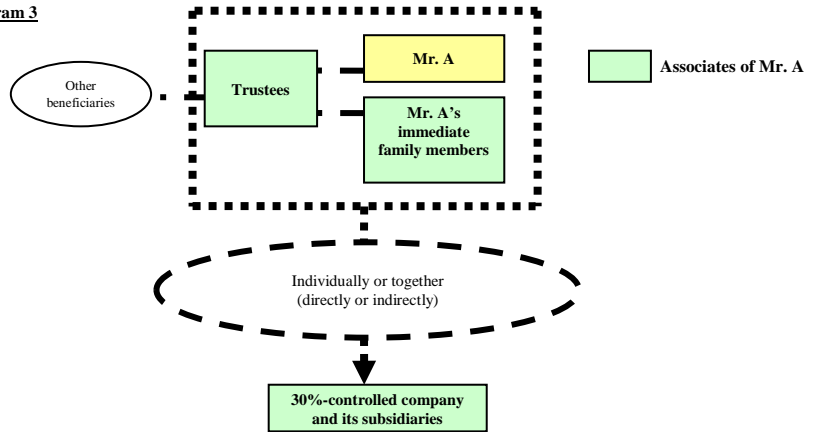


- (b) the trustees, acting in their capacity as trustees of any trust of which the individual or his immediate family member is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object (other than a trust which is an employees' share scheme or occupational pension scheme established for a wide scope of participants and the connected persons' aggregate interests in the scheme are less than 30%) (the "trustees"); or

Proposal C(2) adopted with modification

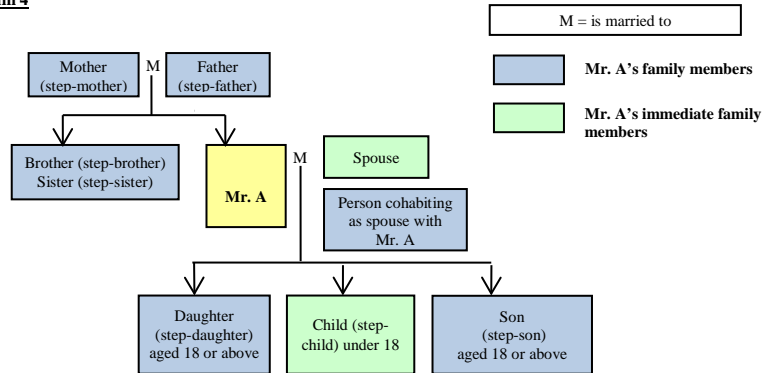
- (c) a 30%-controlled company held, directly or indirectly, by the individual, his immediate family members and/or the trustees (individually or together), or any of its subsidiaries; or

Diagram 3



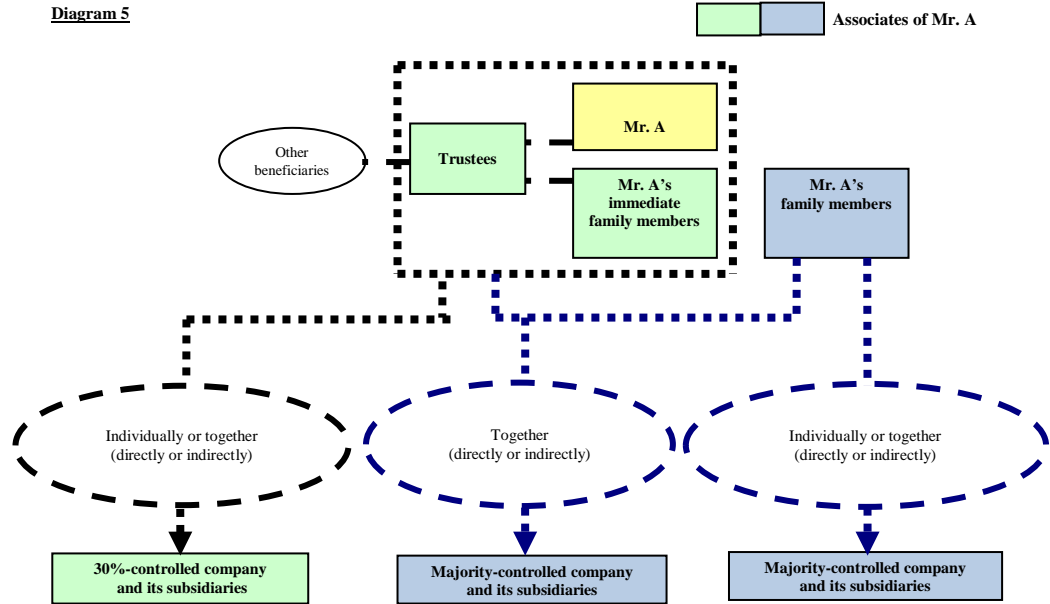
- (2) (a) a person cohabiting with him as a spouse, or his child, step-child, parent, step-parent, brother, step-brother, sister or step-sister (each a “family member”); or

Diagram 4



- (b) a majority-controlled company held, directly or indirectly, by the family members (individually or together), or held by the family members together with the individual, his immediate family members and/or the trustees, or any of its subsidiaries.

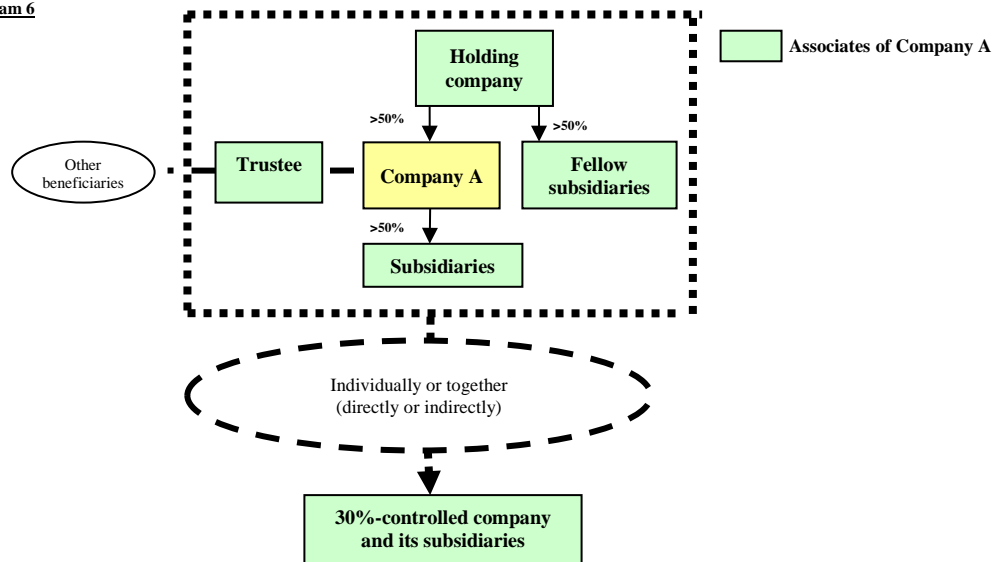
Diagram 5



20.11 An “associate” of a connected person described in rule 20.07(1), (2) or (3) which is a company includes:

- (1) its subsidiary or holding company, or a fellow subsidiary of the holding company;
- (2) the trustees, acting in their capacity as trustees of any trust of which the company is a beneficiary or, in the case of a discretionary trust, is (to its knowledge) a discretionary object (the “trustees”); or
- (3) a 30%-controlled company held, directly or indirectly, by the company, the companies referred to in (1) above, and/or the trustees (individually or together), or any of its subsidiaries.

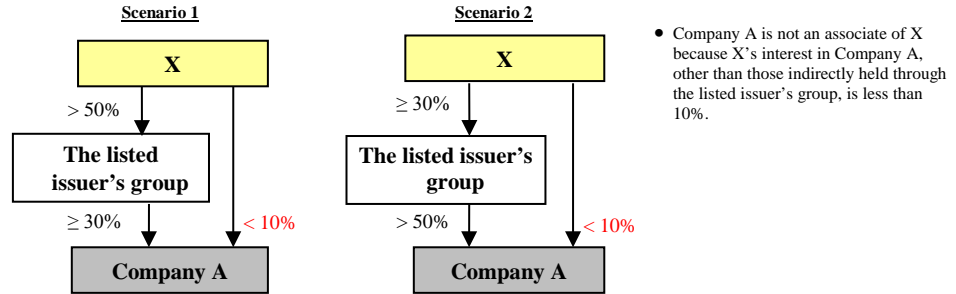
Diagram 6



20.12 A 30%-controlled company held by a person will not be regarded as his or its associate if the person's and his or its associates' interests in the company, other than those indirectly held through the listed issuer's group, are together less than 10%.

Proposal
C(3)
adopted

Diagram 7



20.13 For PRC issuers only, a person's associates include any joint venture partner of a cooperative or contractual joint venture (whether or not it is a separate legal entity) where:

- (1) the person (being an individual), his immediate family members and/or the trustees; or
- (2) the person (being a company), any company which is its subsidiary or holding company or a fellow subsidiary of the holding company, and/or the trustees,

together directly or indirectly hold 30% (or an amount that would trigger a mandatory general offer or establish legal or management control over a business enterprise under the PRC law) or more in the joint venture's capital or assets contributions, or the contractual share of its profits or other income.

Diagram 8

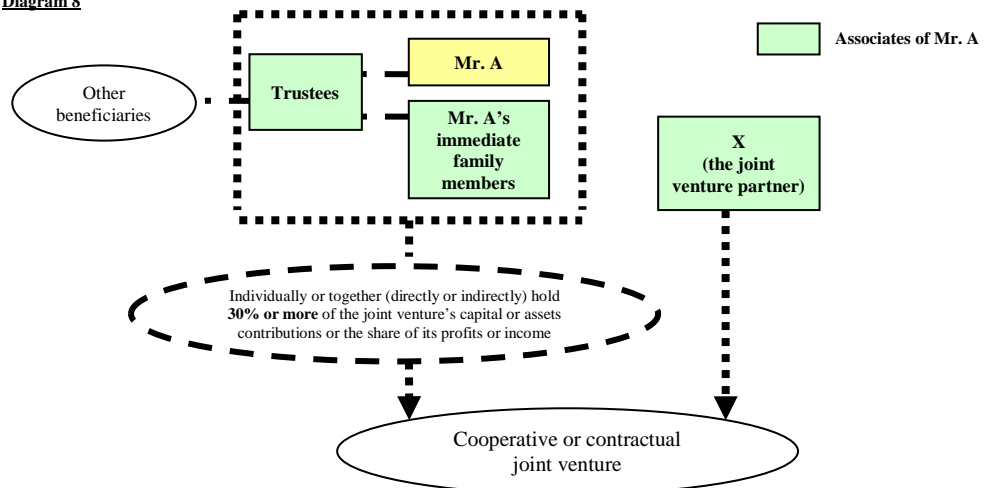
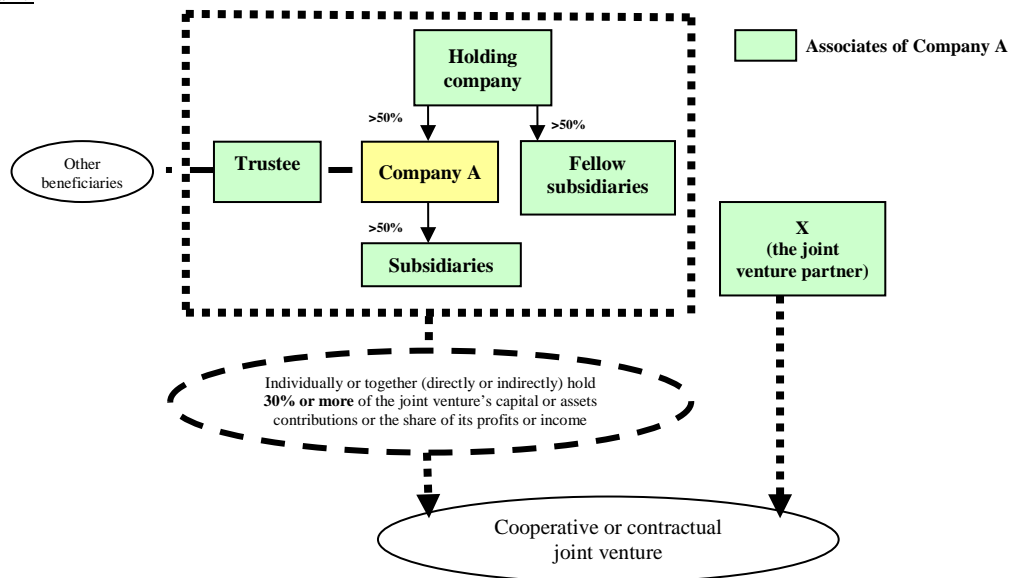


Diagram 9



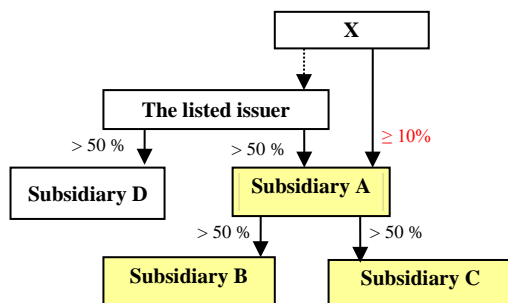
Definition of connected subsidiary

20.14 A “connected subsidiary” is:

- (1) a non wholly-owned subsidiary of the listed issuer where any connected person(s) at the issuer level, individually or together, can exercise or control the exercise of 10% or more of the voting power at the subsidiary’s general meeting. This 10% excludes any indirect interest in the subsidiary which is held by the connected person(s) through the listed issuer; or
- (2) any subsidiary of a non wholly-owned subsidiary referred to in (1) above.

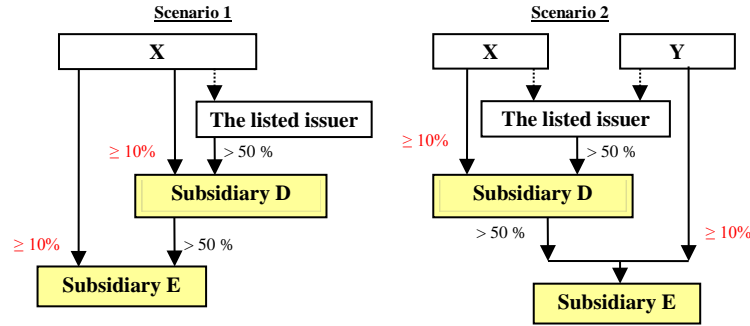
20.15 If a listed issuer’s subsidiaries are connected persons only because they are the subsidiaries of a connected subsidiary, transactions between these subsidiaries will not be treated as connected transactions.

Diagram 10



- X is a connected person at the issuer level, and he or it has a 10% (or more) shareholding in Subsidiary A.
→ Subsidiary A is a connected subsidiary. (See rule 20.14(1))
- Subsidiaries B and C are subsidiaries of Subsidiary A.
→ Subsidiaries B and C are also connected subsidiaries. (See rule 20.14(2))
- Transactions between the listed issuer or Subsidiary D with Subsidiary A/B/C are connected transactions.
- Transactions between any of Subsidiaries A, B and C are not connected transactions if Subsidiaries B and C are connected solely because of their relationship with Subsidiary A. (See rule 20.15)

Diagram 11

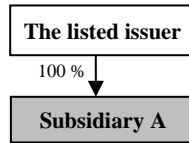


- X and Y are connected persons at the issuer level.
→ Subsidiaries D and E are connected subsidiaries.
- Subsidiary E is a subsidiary of Subsidiary D. However, the exemption in rule 20.15 does not apply to transactions between them because Subsidiary E is a connected subsidiary not only because of its relationship with Subsidiary D but also its relationship with X or Y.

20.16 A subsidiary of the listed issuer is not a connected person if:

- (1) it is directly or indirectly wholly-owned by the listed issuer; or

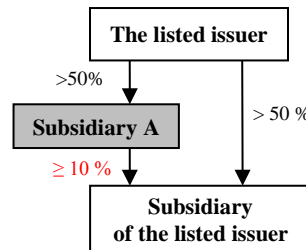
Diagram 12



- (2) it falls under the definition of connected person only because it is:

- (a) a substantial shareholder of another subsidiary of the listed issuer; or

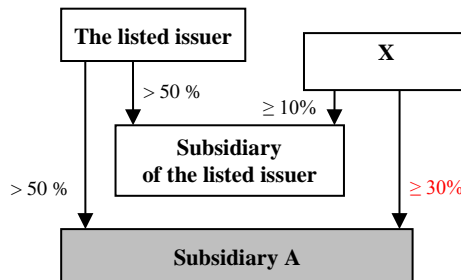
Diagram 13



- Subsidiary A is a substantial shareholder of another subsidiary of the listed issuer. However, this relationship will not make Subsidiary A a connected person of the listed issuer.

- (b) an associate of a director (or a person who was in the past 12 months a director), a chief executive, a substantial shareholder or a supervisor of any subsidiary of the listed issuer.

Diagram 14



- X is a substantial shareholder of a subsidiary of the listed issuer.
- X holds 30% (or more) shareholding in Subsidiary A.
→ Subsidiary A is an associate of X. However, this relationship will not make Subsidiary A a connected person of the listed issuer because X is only a connected person at the subsidiary level.

Deemed connected persons

20.17 The Exchange has the power to deem any person to be a connected person.

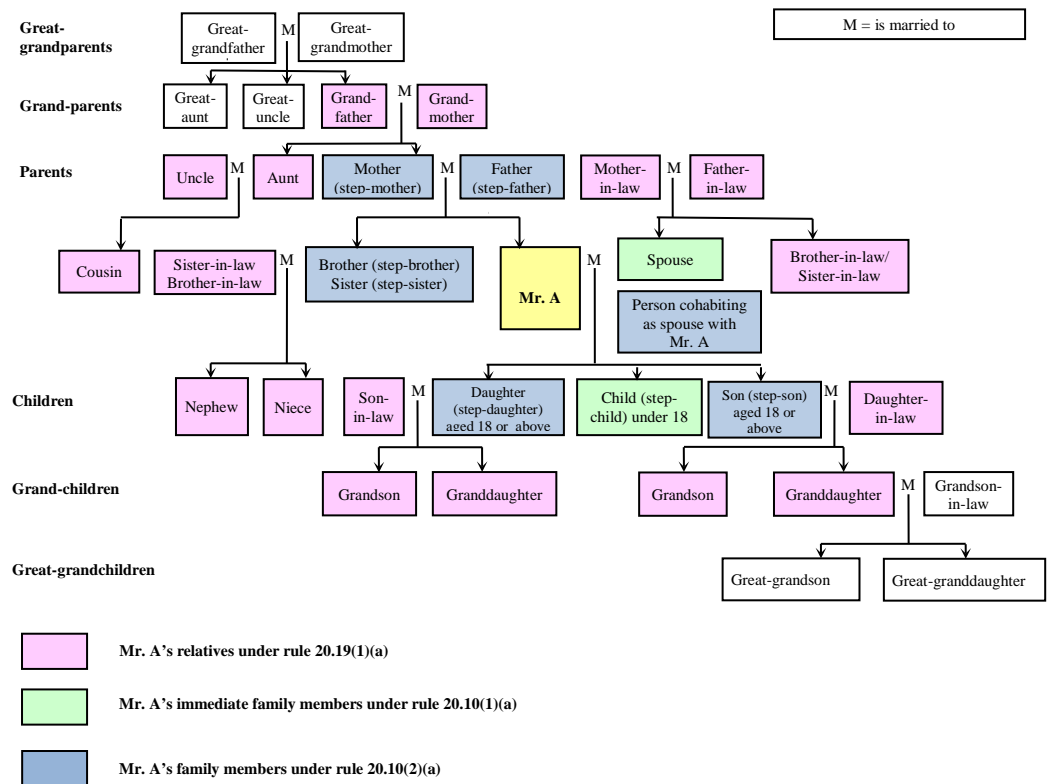
20.18 A deemed connected person includes a person:

- (1) who has entered, or proposes to enter, into:
 - (a) a transaction with the listed issuer's group; and
 - (b) an agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) with a connected person described in rule 20.07(1), (2) or (3) with respect to the transaction; and
- (2) who, in the Exchange's opinion, should be considered as a connected person.

20.19 A deemed connected person also includes a person:

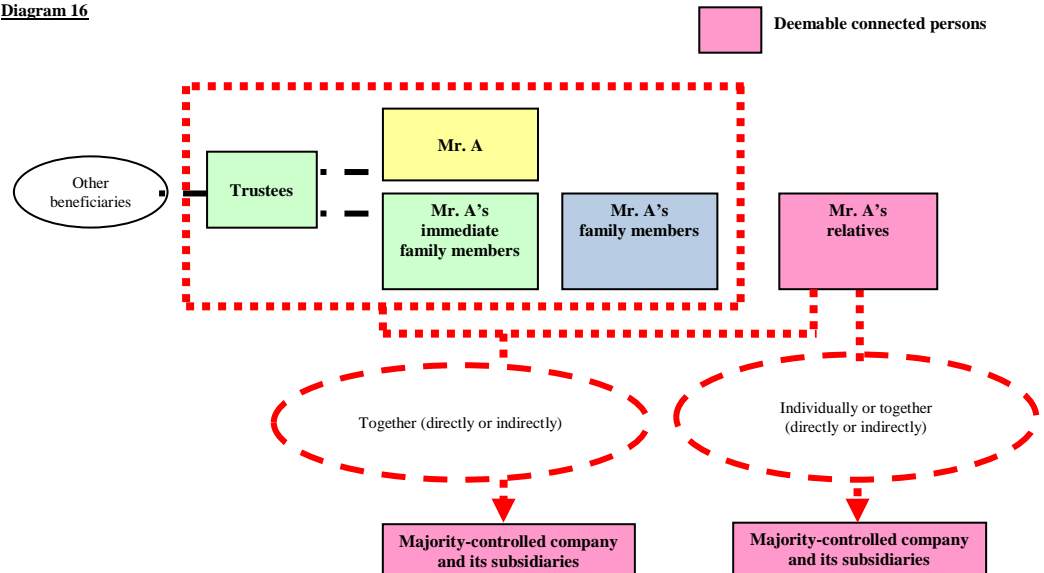
- (1) who is:
 - (a) a father in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandparent, grandchild, uncle, aunt, cousin, nephew or niece (each a "relative") of a connected person described in rule 20.07(1), (2) or (3); or

Diagram 15



- (b) a majority-controlled company held, directly or indirectly, by the relatives (individually or together) or held by the relatives together with the connected person as described in rule 20.07(1), (2) or (3), the trustees, his immediate family members and/or family members, or any subsidiary of that majority-controlled company; and

Diagram 16



- (2) whose association with the connected person is such that, in the Exchange’s opinion, the proposed transaction should be subject to the connected transaction requirements.

20.20 The listed issuer must inform the Exchange of any proposed transaction with the person described in rule 20.18(1) or 20.19(1) unless it is exempt from all of the connected transaction requirements. It must provide information to the Exchange to demonstrate whether or not the transaction should be subject to connected transaction requirements.

WHAT ARE CONNECTED TRANSACTIONS

20.21 Connected transactions are transactions with connected persons, and specified categories of transactions with third parties that may confer benefits on connected persons through their interests in the entities involved in the transactions. They may be one-off transactions or continuing transactions.

20.22 “Transactions” include both capital and revenue nature transactions, whether or not conducted in the ordinary and usual course of business of the listed issuer’s group. This includes the following types of transactions:

- (1) any acquisition or disposal of assets by a listed issuer’s group including a deemed disposal;
- (2) (a) a listed issuer’s group granting, accepting, exercising, transferring or terminating an option to acquire or dispose of assets or to subscribe for securities; or

Note: Terminating an option is not a transaction if it is made under the terms of the original agreement and the listed issuer’s group has no discretion over the termination.

- (b) a listed issuer's group deciding not to exercise an option to acquire or dispose of assets or to subscribe for securities;
- (3) entering into or terminating finance leases or operating leases or sub-leases;
- (4) granting an indemnity or providing or receiving financial assistance. "Financial assistance" includes granting credit, lending money, or providing an indemnity against obligations under a loan, or guaranteeing or providing security for a loan;
- (5) entering into an agreement or arrangement to set up a joint venture in any form (e.g. a partnership or a company), or any other form of joint arrangement;
- (6) issuing new securities of the listed issuer or its subsidiaries;
- (7) providing, receiving or sharing services; or
- (8) acquiring or providing raw materials, intermediate products and/or finished goods.

Transactions with connected persons

20.23 Any transaction between a listed issuer's group and a connected person is a connected transaction.

Transactions with third parties

Financial assistance to or from commonly held entities

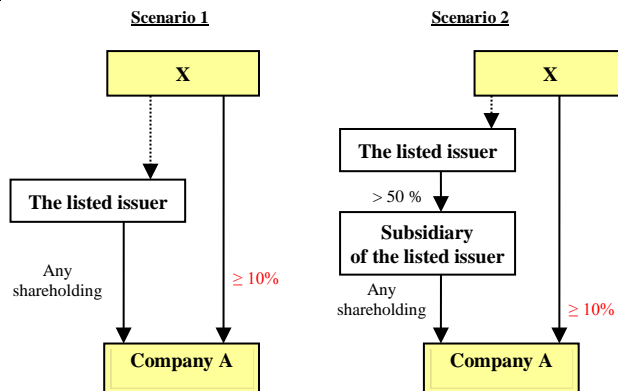
20.24 Financial assistance provided by a listed issuer's group to, or received by a listed issuer's group from, a commonly held entity is a connected transaction.

Proposal D adopted

20.25 A "commonly held entity" is a company whose shareholders include:

- (1) a member of the listed issuer's group; and
- (2) any connected person(s) at the issuer level who, individually or together, can exercise or control the exercise of 10% or more of the voting power at the company's general meeting. This 10% excludes any indirect interest held by the person(s) through the listed issuer.

Diagram 17



- X is a connected person at the issuer level
- Both the listed issuer's group and X are shareholders of Company A, and X holds 10% (or more) of shareholding in Company A.
 - Company A is a commonly held entity.
 - Financial assistance provided by the listed issuer's group to, or received by the listed issuer's group from, Company A is a connected transaction.

Other transactions with third parties

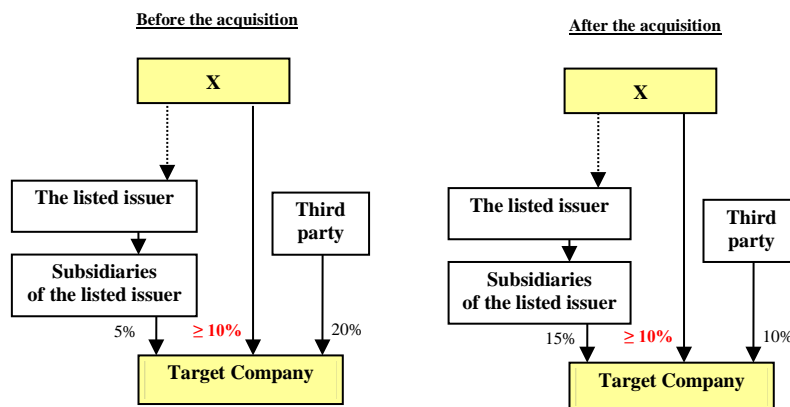
20.26 A listed issuer's group acquiring an interest in a company (the "target company") from a person who is not a connected person is a connected transaction if the target company's substantial shareholder:

Proposals E(a) to (c) adopted

- (1) is, or is proposed to be, a controller. A "controller" is a director, chief executive or controlling shareholder of the listed issuer; or
- (2) is, or will, as a result of the transaction, become, an associate of a controller or proposed controller.

Note: Acquiring the target company's assets is also a connected transaction if these assets account for 90% or more of the target company's net assets or total assets.

Diagram 18

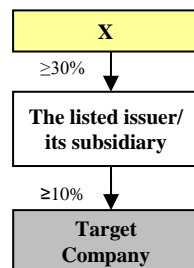


- X is a controller or proposed controller of the listed issuer.
 - X is a substantial shareholder of the Target Company.
- The acquisition of an interest in the Target Company by the listed issuer's group from the third party is a connected transaction.

20.27 The Exchange may aggregate the interests of the controller and his or its associates in the target company to decide whether they together are the target company's substantial shareholder.

20.28 Rule 20.26 does not apply to a listed issuer's proposed acquisition if the controller or his or its associate(s) is or are together the target company's substantial shareholders only because of their indirect shareholdings in the target company held through the listed issuer's group.

Diagram 19



- X is a controller of the listed issuer.
 - X only has an indirect interest in the Target Company through the listed issuer's group.
- The acquisition of an interest in the Target Company by the listed issuer's group from any third party (who is not a connected person) is not a connected transaction.

Definition of continuing connected transaction

- 20.29 Continuing connected transactions are connected transactions involving the provision of goods or services or financial assistance, which are carried out on a continuing or recurring basis and are expected to extend over a period of time. They are usually transactions in the ordinary and usual course of business of the listed issuer's group.

REQUIREMENTS FOR CONNECTED TRANSACTIONS

- 20.30 This section sets out the requirements for connected transactions.
- 20.31 Exemptions or waivers from all or some of the requirements are available for specified categories of connected transactions. See rules 20.71 to 20.103.

Written agreement

- 20.32 The listed issuer's group must enter into a written agreement for a connected transaction.

Announcement

- 20.33 The listed issuer must announce the connected transaction as soon as practicable after its terms have been agreed. See rule 20.66 for the content requirements.

Note: If the connected transaction is subsequently terminated or there is any material variation of its terms or material delay in the completion, the listed issuer must announce this fact as soon as practicable. The listed issuer must also comply with all other applicable provisions under the Rules.

Shareholders' approval

- 20.34 The connected transaction must be conditional on shareholders' approval at a general meeting held by the listed issuer. Any shareholder who has a material interest in the transaction must abstain from voting on the resolution.
- 20.35 The Exchange may waive the general meeting requirement and accept a written shareholders' approval, subject to the conditions that:
- (1) no shareholder of the listed issuer is required to abstain from voting if a general meeting is held to approve the transaction; and
 - (2) the approval is given by a shareholder or a closely allied group of shareholders who (together) hold more than 50% of the voting rights in the general meeting.
- 20.36 If the listed issuer discloses inside information to any shareholder in confidence to solicit the written approval, it must ensure that the shareholder is aware that he must not deal in the securities before the information has been made available to the public.
- 20.37 If the connected transaction requires shareholders' approval, the listed issuer must (1) set up an independent board committee; and (2) appoint an independent financial adviser.

Independent board committee

- 20.38 The independent board committee must, taking into account the recommendation of an independent financial adviser, advise the listed issuer's shareholders:
- (1) whether the terms of the connected transaction are fair and reasonable;
 - (2) whether the connected transaction is on normal commercial terms or better and in the ordinary and usual course of business of the listed issuer's group;
 - (3) whether the connected transaction is in the interests of the listed issuer and its shareholders as a whole; and
 - (4) how to vote on the connected transaction.
- 20.39 The independent board committee must consist only of independent non-executive directors who do not have a material interest in the transaction.
- 20.40 If all the independent non-executive directors have a material interest in the transaction, an independent board committee will not be formed.
- 20.41 If an independent board committee is formed, the circular must include a letter from the independent board committee containing its opinion on the matters in rule 20.38 and its recommendation.

Proposal H
adopted

Independent financial adviser

- 20.42 The listed issuer must appoint an independent financial adviser acceptable to the Exchange to make recommendations to the independent board committee and shareholders on the matters in rules 20.43(1) to (4). The independent financial adviser will give its opinion based on the written agreement for the transaction.
- 20.43 The circular must include a letter from the independent financial adviser containing its opinion and recommendation. The independent financial adviser's letter must also set out the reasons for its opinion, the key assumptions made, the factors that it has taken into consideration in forming the opinion, and a statement whether:
- (1) the terms of the connected transaction are fair and reasonable;
 - (2) the connected transaction is on normal commercial terms or better and in the ordinary and usual course of business of the listed issuer's group;
 - (3) the connected transaction is in the interests of the listed issuer and its shareholders as a whole; and
 - (4) the shareholders should vote in favour of the connected transaction.

Circular

- 20.44 The listed issuer must send a circular to its shareholders:
- (1) at the same time or before the listed issuer gives notice of the general meeting if the connected transaction is to be approved by shareholders in a general meeting; or

- (2) if no general meeting is to be held, within 15 business days after publication of the announcement. The listed issuer may apply for a waiver from this requirement if it requires additional time to prepare the circular.

Note: See rules 20.67 and 20.68 for the content requirements.

- 20.45 If the listed issuer expects a delay in distribution of the circular by the date previously announced (see rule 20.66(11)), it must announce this fact, the reason for the delay and the new expected date of distribution of the circular as soon as practicable and in any event before the original despatch date.

Supplementary circular or announcement

- 20.46 If the listed issuer is aware of any material information relating to the connected transaction after it has issued the circular, it must publish this information in a supplementary circular or announcement at least 10 business days before the date of the general meeting to consider the transaction. The meeting must be adjourned by the chairman or, if that is not permitted by the listed issuer's constitutional documents, by resolution to that effect if it is necessary for the compliance with the 10 business day requirement. (See rule 17.46(2) for the factors that the listed issuer should consider when deciding whether to issue a supplementary circular or announcement.)

Annual reporting

- 20.47 The listed issuer must disclose its connected transactions conducted during the financial year in its annual report. See rules 20.69 and 20.70 for the content requirements.

Requirements for continuing connected transactions

- 20.48 The following additional requirements apply to a continuing connected transaction.

Terms of an agreement

- 20.49 A written agreement for a continuing connected transaction must contain the basis for calculating the payments to be made. Examples include sharing of costs incurred by the parties, unit prices for goods or services provided, annual rental for leasing a property, or management fees based on a percentage of the total construction cost.

- 20.50 The period for the agreement must be fixed and reflect normal commercial terms or better. It must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In this case, the listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

Annual cap

- 20.51 The listed issuer must set an annual cap (the "cap") for the continuing connected transaction. The cap must be:

- (1) expressed in monetary terms;

- (2) determined by reference to previous transactions and figures in the published information of the listed issuer's group. If there were no previous transactions, the cap must be set based on reasonable assumptions; and
- (3) approved by shareholders if the transaction requires shareholders' approval.

Changes to cap or terms of agreement

20.52 The listed issuer must re-comply with the announcement and shareholders' approval requirements before:

- (1) the cap is exceeded; or
- (2) it proposes to renew the agreement or to effect a material change to its terms.

Note: The revised or new cap(s) will be used to calculate the percentage ratios for classifying the continuing connected transaction.

Annual review by independent non-executive directors and auditors

20.53 The listed issuer's independent non-executive directors must review the continuing connected transactions every year and confirm in the annual report whether the transactions have been entered into:

- (1) in the ordinary and usual course of business of the listed issuer's group;
- (2) on normal commercial terms or better; and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the listed issuer's shareholders as a whole.

20.54 The listed issuer must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the listed issuer's board of directors confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:

Proposal F(3) adopted

- (1) have not been approved by the listed issuer's board of directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) have exceeded the cap.

20.55 The listed issuer must provide a copy of the auditors' letter to the Exchange at least 10 business days before the bulk printing of its annual report.

20.56 The listed issuer must allow, and ensure that the counterparties to the continuing connected transactions allow, the auditors sufficient access to their records for the purpose of reporting on the transactions.

- 20.57 The listed issuer must promptly notify the Exchange and publish an announcement if the independent non-executive directors and/or the auditors cannot confirm the matters as required. The Exchange may require the listed issuer to re-comply with the announcement and shareholders' approval requirements and may impose additional conditions.

When a continuing transaction subsequently becomes connected

- 20.58 If the listed issuer's group has entered into an agreement for a fixed period with fixed terms for:

- (1) a continuing transaction, and the transaction subsequently becomes a continuing connected transaction, or

Note: This includes a continuing transaction between the listed issuer's group and a connected person exempt under the "insignificant subsidiary exemption" (see rule 20.08), and the connected person subsequently cannot meet the conditions for the exemption.

- (2) a continuing connected transaction exempt under the "passive investor exemption" (see rules 20.97 and 20.98), and the transaction subsequently cannot meet the conditions for the exemption,

the listed issuer must:

- (a) as soon as practicable after becoming aware of this fact, comply with the annual review and disclosure requirements including publishing an announcement and annual reporting if the listed issuer's group continues to conduct the transaction under the agreement; and
- (b) when the agreement is renewed or its terms are varied, comply with all connected transaction requirements.

Other requirements relating to connected transactions

Options

- 20.59 If the listed issuer's group grants an option to a connected person and the listed issuer's group does not have discretion to exercise the option, the transaction is classified as if the option has been exercised (see rule 20.77(1)). In addition, the listed issuer must announce the following subsequent events as soon as practicable:

- (1) any exercise or transfer of the option by the option holder; and/or
- (2) (if the option is not, or is not to be, exercised in full), the option holder notifying the listed issuer's group that it will not exercise the option, or the expiry of the option, whichever is earlier.

Guaranteed profits or net tangible assets

- 20.60 The following apply if the listed issuer's group acquires a company or business from a connected person, and the connected person guarantees the profits or net tangible assets or other matters regarding the financial performance of the company or business.

- 20.61 If the actual performance fails to meet the guarantee, the listed issuer must disclose the following in an announcement and in its next annual report:
- (1) the shortfall and any adjustment in the consideration for the transaction;
 - (2) whether the connected person has fulfilled its obligations under the guarantee;
 - (3) whether the listed issuer's group has exercised any option to sell the company or business back to the connected person or other rights it held under the terms of the guarantee, and the reasons for its decision; and
 - (4) the independent non-executive directors' opinion on:
 - (a) whether the connected person has fulfilled its obligations; and
 - (b) whether the decision of the listed issuer's group to exercise or not to exercise any options or rights set out in rule 20.61(3) is fair and reasonable and in the interests of the shareholders as a whole.

When a proposed transaction becomes connected

20.62 If a connected transaction is also a notifiable transaction, the listed issuer must also comply with the requirements in Chapter 19.

20.63 If a listed issuer has entered into an agreement for a proposed transaction which is conditional on shareholders' approval in general meeting and the proposed transaction becomes a connected transaction before the shareholders' approval, the listed issuer must comply with the connected transaction requirements. Where a notice of meeting to approve the proposed transaction has been sent to shareholders, the listed issuer must issue a further announcement and a supplementary circular (see rule 20.46) to disclose that the transaction has become a connected transaction and the parties that are required to abstain from voting. The circular must also contain information required for a connected transaction circular.

Checklists

20.64 The listed issuer must complete and submit any checklists for connected transactions prescribed by the Exchange from time to time.

CONTENT REQUIREMENTS

20.65 This section sets out the information that a listed issuer must disclose in its announcements, circulars and annual reports.

Announcements

20.66 An announcement for a connected transaction must contain at least:

- (1) the information set out in rules 19.58 to 19.60 (contents of announcements for notifiable transactions);
- (2) the connected relationship between the parties to the transaction, and the connected person's interests in the transaction;

- (3) the independent non-executive directors' views on the matters set out in rules 20.38(1) to (3) if no shareholders' approval is required;
- (4) if the transaction is a continuing connected transaction, the basis for calculating the payments to be made (see rule 20.49) and the amount of its cap. If a circular is not required, the listed issuer must also disclose how it determines and calculates the cap, including the assumptions and the amounts of previous transactions which form the basis of the cap;
- (5) if the transaction involves the listed issuer's group acquiring assets from a connected person, the original acquisition cost of the assets to the connected person;
- (6) if the transaction involves the listed issuer's group disposing of assets which it has held for 12 months or less, the original acquisition cost of the assets to the listed issuer's group;
- (7) if the announcement contains a profit forecast of the listed issuer's group or a company which is, or will become, the listed issuer's subsidiary, the information set out in rule 19.62 (requirements for profit forecast in notifiable transaction announcement);
- (8) if no circular is required, a statement whether any directors of the listed issuer have a material interest in the transaction and, if so, whether they have abstained from voting on the board resolution;
- (9) a statement that the transaction is subject to shareholders' approval, if applicable;
- (10) if the transaction is, or will be, approved by way of shareholders' written approval, details of the shareholders giving the approval (including their names and shareholdings in the listed issuer) and the relationship between the shareholders; and
- (11) if a circular is required, the expected date of distribution of the circular, and, if this is more than 15 business days after the publication of the announcement, the reasons why this is so.

Circulars

20.67 A circular for a connected transaction must:

- (1) provide a clear and adequate explanation of its subject matter and demonstrate the advantages and disadvantages of the transaction for the listed issuer's group;
- (2) where practicable, include a numerical evaluation;
- (3) contain all information necessary to allow the listed issuer's shareholders to make a properly informed decision; and
- (4) contain a heading drawing attention to the importance of the document and advising shareholders who are in any doubt to consult appropriate independent advisers on the appropriate course of action.

20.68 The circular must contain at least:

- (1) the Exchange's disclaimer statement (see rule 2.19) on its front cover or inside front cover;
- (2) the information required to be disclosed in the announcement for the transaction;
- (3) the identity and activities of the parties to the transaction and of their ultimate beneficial owner(s);
- (4) the name of the connected person concerned, his or its relationship with any controller and the name and office held by that controller;
- (5) if the transaction is a continuing connected transaction, how the listed issuer determines and calculates the cap, including the assumptions and the amounts of previous transactions which form the basis of the cap;
- (6) a letter from each of the independent financial adviser and, if applicable, the independent board committee containing its opinion and recommendation on the transaction (see rules 20.41 and 20.43);
- (7) if the transaction involves the acquisition or disposal of any property interests or a company whose assets consist solely or mainly of property, a valuation and information on the property if required under rule 8.03;
- (8) if the primary significance of the asset (other than property interests) being acquired or disposed of is its capital value, an independent valuation of the asset;
- (9) if the transaction involves an acquisition or disposal of a company or business engaging in an infrastructure project, a business valuation report on that company or business and/or traffic study report on the project. The report(s) must clearly set out:
 - (a) all significant underlying assumptions including the discount rate or growth rate used; and
 - (b) a sensitivity analysis based on different discount rates and growth rates.

If the business valuation is based on a profit forecast, the accounting policies and calculations for the underlying forecasts must be examined and reported on by the auditors or reporting accountants. Any financial adviser mentioned in the circular must also report on the underlying forecasts.

- (10) if the transaction involves the listed issuer's group acquiring a company or business from a connected person, details of:
 - (a) any guarantee of the profits or net tangible assets or other matters regarding the financial performance of the company or business provided by the connected person, and a statement by the listed issuer that it will comply with the disclosure requirements (see rule 20.61) if the actual performance fails to meet the guarantee; and

- (b) any option granted to the listed issuer's group to sell the company or business back to the connected person and/or other rights given to the listed issuer's group;
- (11) a statement whether any directors of the listed issuer have a material interest in the transaction and, if so, whether they have abstained from voting on the board resolution;
- (12) a statement that any shareholder with a material interest in the transaction will not vote and the information required in rule 2.28;
- (13) the information set out in the following paragraphs of Appendix 1, Part B:
 - 1 — listed issuer's name
 - 2 — directors' responsibility
 - 5 — expert statements
 - 10 — securities to be issued (if applicable)
 - 29(2) — requirements if there is a profit forecast
 - 32 — no material adverse change
 - 39 — directors' service contracts
 - 40 — directors' interests in assets
 - 42(2)(a) & (c) — documents on display
- (14) information regarding directors' and chief executive's interests in the listed issuer described in paragraphs 34, 38 and 38A of Appendix 1, Part B;
- (15) information regarding the competing interests (if any) of the Compliance Adviser and its directors, employees and close associates (as referred to in rule 6A.32) and each of the directors and any proposed director of the listed issuer's group and his respective close associates as would be required to be disclosed under rule 11.04 as if each of them was a controlling shareholder; and
- (16) any additional information requested by the Exchange.

Annual reports

20.69 The listed issuer's annual report must contain the following information on the connected transactions conducted in that financial year (including continuing connected transactions under agreements signed in previous years):

- (1) the transaction date;
- (2) the parties to the transaction and a description of their connected relationship;
- (3) a brief description of the transaction and its purpose;
- (4) the total consideration and terms;
- (5) the nature of the connected person's interest in the transaction; and
- (6) for continuing connected transactions,
 - (a) a confirmation from the listed issuer's independent non-executive directors on the matters set out in rule 20.53; and

- (b) a statement from the listed issuer's board of directors whether the auditors have confirmed the matters set out in rule 20.54.

20.70 When the listed issuer discloses in its annual report information of any related party transaction under the accounting standards for preparing its financial statements, it must specify whether the transaction is a connected transaction under this Chapter and whether it has complied with the requirements in this Chapter.

EXEMPTIONS

20.71 Exemptions from the connected transaction requirements are available for the following types of transactions:

- (1) de minimis transactions (rule 20.74);
- (2) financial assistance (rules 20.85 to 20.89);
- (3) issues of new securities by the listed issuer or its subsidiary (rule 20.90);
- (4) dealings in securities on stock exchanges (rule 20.91);
- (5) repurchases of securities by the listed issuer or its subsidiary (rule 20.92);
- (6) directors' service contracts and insurance (rules 20.93 and 20.94);
- (7) buying or selling of consumer goods or services (rule 20.95);
- (8) sharing of administrative services (rule 20.96) ;
- (9) transactions with associates of passive investors (rules 20.97 and 20.98);
and
- (10) transactions with connected persons at the subsidiary level (rule 20.99).

20.72 The exemptions are broadly divided into two categories: (1) fully exempt from shareholders' approval, annual review and all disclosure requirements; and (2) exempt from shareholders' approval requirement.

20.73 The Exchange has the power to specify that an exemption will not apply to a particular transaction.

De minimis transactions

20.74 This exemption applies to a connected transaction (other than an issue of new securities by the listed issuer) conducted on normal commercial terms or better as follows:

- (1) The transaction is fully exempt if all the percentage ratios (other than the profits ratio) are:
 - (a) less than 0.1%;
 - (b) less than 1% and the transaction is a connected transaction only because it involves connected person(s) at the subsidiary level; or

- (c) less than 5% and the total consideration (or in the case of any financial assistance, the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity) is less than HK\$3,000,000.
- (2) The transaction is exempt from the circular (including independent financial advice) and shareholders' approval requirements if all the percentage ratios (other than the profits ratio) are:
 - (a) less than 5%; or
 - (b) less than 25% and the total consideration (or in the case of any financial assistance, the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity) is less than HK\$10,000,000.

Percentage ratio calculations

- 20.75 The methods of percentage ratio calculations set out in Chapter 19 (notifiable transactions) also apply to connected transactions in this Chapter subject to the modifications described in rules 20.76 to 20.77.
- 20.76 For continuing connected transactions, the listed issuer must calculate the assets ratio, revenue ratio and consideration ratio using the cap as the numerator. If the agreement for the transaction covers over one year, the transaction will be classified based on the largest cap during the term of the agreement.
- 20.77 The following applies when calculating percentage ratios for connected transactions involving options:
 - (1) if the listed issuer's group grants an option to a connected person and the listed issuer's group does not have discretion to exercise the option, it is classified as if the option has been exercised. The percentage ratios are calculated based on the consideration for the transaction (which includes the premium and the exercise price of the option), the value of the underlying assets, and the revenue attributable to the assets (See rule 20.59 for the disclosure requirement when the option holder exercises or transfers the option, or when the option expires);
 - (2) if the listed issuer's group acquires or accepts an option granted by a connected person where the listed issuer's group has discretion to exercise the option, it is classified based on the amount of the premium payable by the listed issuer's group. However, if the premium represents 10% or more of the sum of the premium and the exercise price, the transaction will be classified as if the option has been exercised (see rule 20.77(1));
 - (3) if the listed issuer's group exercises an option granted by a connected person, it is classified based on the exercise price, the value of the underlying assets, and the revenue attributable to the assets. If the option is exercised in stages, the Exchange may require aggregation of the transactions;
 - (4) if the listed issuer's group transfers an option granted by a connected person to a third party, terminates the option or decides not to exercise the option:

- (a) the listed issuer must classify the transaction as if the option has been exercised. The percentage ratios are calculated based on the exercise price, the value of the underlying assets, and the revenue attributable to the assets, and (if applicable) the consideration for transferring the option, or the amount receivable or payable by the listed issuer's group for terminating the option; or
- (b) the Exchange may allow the listed issuer to disregard the percentage ratios calculated under paragraph (a) above and to classify the transaction using the asset and consideration ratios calculated based on the higher of:
 - (i) (for a put option held by the listed issuer's group) the exercise price over the value of the assets subject to the option, or (for a call option held by the listed issuer's group) the value of the assets subject to the option over the exercise price; and
 - (ii) the consideration or amount payable or receivable by the listed issuer's group.

These alternative tests would be allowed only if the assets' valuation is provided by an independent expert using generally acceptable methodologies, and the listed issuer's independent non-executive directors and an independent financial adviser have confirmed that the transfer, termination or non-exercise of the option is fair and reasonable and in the interests of the listed issuer and its shareholders as a whole. The listed issuer must announce the transfer, termination or non-exercise of the option with the views of the independent non-executive directors and the independent financial adviser; and

- (5) if the actual monetary value of the premium, the exercise price, the value of the underlying assets and the revenue attributable to the assets have not been determined when the listed issuer's group grants or acquires or accepts the option:
 - (a) the listed issuer must demonstrate to the Exchange's satisfaction the highest possible monetary value for calculating the percentage ratios and classifying the transaction. If the listed issuer is unable to do so, it may be required to comply with all the connected transaction requirements for the transaction; and
 - (b) the listed issuer must inform the Exchange when the actual monetary value has been determined. If the transaction falls under a higher classification based on the actual monetary value, the listed issuer must as soon as reasonably practicable announce this fact and comply with the requirements applicable to the higher classification.

Note: The requirements in this rule are the same as the requirements applicable to options under Chapter 19 (notifiable transactions), except that

1. *Under Chapter 19, the listed issuer may, at the time of the listed issuer's group acquiring or accepting an option granted by a third party, seek shareholders' approval for its exercise of the option in the future. This is not allowed under this Chapter.*

2. *Under Chapter 19, transfer or termination of an option by the listed issuer's group is a transaction which is classified based on the consideration for transferring the option or the amount receivable or payable by the listed issuer's group for terminating the option. Under this Chapter, the transfer or termination is classified as if the option is exercised or based on the alternative tests set out in rule 20.77(4)(b).*
3. *Under Chapter 19, non-exercise of an option is not a transaction. Under this Chapter, the non-exercise is classified as if the option is exercised or based on the alternative tests set out in rule 20.77(4)(b).*

Exception to percentage ratio calculations

20.78 If any percentage ratio produces an anomalous result or is inappropriate to the activity of the listed issuer, the Exchange may disregard the ratio and consider alternative test(s) provided by the listed issuer. The listed issuer must seek prior consent of the Exchange if it wishes to apply this rule.

Aggregation of transactions

20.79 The Exchange will aggregate a series of connected transactions and treat them as if they were one transaction if they were all entered into or completed within a 12-month period or are otherwise related. The listed issuer must comply with the applicable connected transaction requirements based on the classification of the connected transactions when aggregated. The aggregation period will cover 24 months if the connected transactions are a series of acquisitions of assets being aggregated which may constitute a reverse takeover.

20.80 Factors that the Exchange will consider for aggregation of a series of connected transactions include whether:

- (1) they are entered into by the listed issuer's group with the same party, or parties who are connected with one another;
- (2) they involve the acquisition or disposal of parts of one asset, or securities or interests in a company or group of companies; or
- (3) they together lead to substantial involvement by the listed issuer's group in a new business activity.

20.81 The Exchange may aggregate all continuing connected transactions with a connected person.

20.82 A listed issuer must consult the Exchange before the listed issuer's group enters into any connected transaction if:

- (1) the transaction and any other connected transactions entered into or completed by the listed issuer's group in the last 12 months fall under any of the circumstances described in rule 20.80; or
- (2) the transaction and any other transactions entered into by the listed issuer's group involve the acquisition of assets from a person or group of persons or any of their associates within 24 months after the person(s) gain control (as defined in the Takeovers Code) of the listed issuer.

- 20.83 The listed issuer must provide information to the Exchange on whether it should aggregate the transactions.
- 20.84 The Exchange may aggregate a listed issuer's connected transactions even if the listed issuer has not consulted the Exchange.

Financial assistance

Financial assistance provided by the listed issuer's group

20.85 For any financial assistance provided by a banking company in its ordinary and usual course of business to a connected person or commonly held entity:

- (1) the transaction is fully exempt if it is conducted on normal commercial terms or better;
- (2) the transaction is fully exempt if it is not conducted on normal commercial terms or better but all the percentage ratios (other than the profits ratio) are:
 - (a) less than 0.1%;
 - (b) less than 1% and the transaction is a connected transaction only because it involves connected person(s) at the subsidiary level; or
 - (c) less than 5% and the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity is less than HK\$3,000,000; or
- (3) the transaction is exempt from the circular, independent financial advice and shareholders' approval requirements if it is not conducted on normal commercial terms or better but all the percentage ratios (other than the profits ratio) are:
 - (a) less than 5%; or
 - (b) less than 25% and the total value of the financial assistance plus any monetary advantage to the connected person or commonly held entity is less than HK\$10,000,000.

Proposal I modified

20.86 A "banking company" is a listed issuer or its subsidiary which is a bank, a restricted licence bank or a deposit taking company as defined in the Banking Ordinance, or a bank constituted under appropriate overseas legislation or authority.

20.87 Financial assistance provided by a listed issuer's group to a connected person or commonly held entity is fully exempt if it is conducted:

- (1) on normal commercial terms or better; and
- (2) in proportion to the equity interest directly held by the listed issuer or its subsidiary in the connected person or the commonly held entity. Any guarantee given by the listed issuer's group must be on a several (and not a joint and several) basis.

Financial assistance received by the listed issuer's group

20.88 Financial assistance received by a listed issuer's group from a connected person or commonly held entity is fully exempt if:

- (1) it is conducted on normal commercial terms or better; and
- (2) it is not secured by the assets of the listed issuer's group.

The listed issuer's group providing an indemnity for a director

20.89 Providing an indemnity for a director of the listed issuer or its subsidiaries is fully exempt if:

- (1) the indemnity is for liabilities that may be incurred in the course of the director performing his duties; and
- (2) the indemnity is in a form permitted under the laws of Hong Kong and where the company providing the indemnity is incorporated outside Hong Kong, the laws of the company's place of incorporation.

Proposal K adopted with modification

Issues of new securities by the listed issuer or its subsidiary

20.90 An issue of new securities by a listed issuer or its subsidiary to a connected person is fully exempt if:

- (1) the connected person receives a pro rata entitlement to the issue as a shareholder;
- (2) the connected person subscribes for the securities in a rights issue or open offer:
 - (a) through excess application (see rule 10.31(1) or 10.42(1)); or
 - (b) in his or its capacity as an underwriter or sub-underwriter of the rights issue or open offer, and rule 10.31 or 10.42 (arrangements to dispose of any excess securities) has been complied with. In this case, the listing document must contain the terms and conditions of the underwriting arrangement;

Note: Any commission and fees payable by the listed issuer's group to the connected person for the underwriting arrangement are not exempt under this exemption.

- (3) the securities are issued to the connected person under:
 - (a) a share option scheme that complies with Chapter 23; or
 - (b) a share option scheme adopted by the listed issuer before its securities first start dealing on the Exchange, and where the Exchange has approved the listing of the securities to be issued under the scheme; or
- (4) the securities are issued under a "top-up placing and subscription" that meets the following conditions:
 - (a) the new securities are issued to the connected person:

- (i) after it has reduced its holding in the same class of securities by placing them to third parties who are not its associates under a placing agreement; and
- (ii) within 14 days from the date of the placing agreement;
- (b) the number of new securities issued to the connected person does not exceed the number of securities placed by it; and
- (c) the new securities are issued at a price not less than the placing price. The placing price may be adjusted for the expenses of the placing.

Note: An issue of new securities by a subsidiary of the listed issuer may be exempt as a de minimis transaction.

Dealings in securities on stock exchanges

20.91 Dealing in securities of a target company (i.e. a connected transaction described in rule 20.26) by the listed issuer's group is fully exempt if it meets the following conditions:

- (1) the dealing in the securities is conducted as part of the ordinary and usual course of business of the listed issuer's group;
- (2) the securities are listed on the Exchange or a recognised stock exchange;
- (3) the dealing is carried out on the Exchange or a recognised stock exchange, or if not, no consideration passes to or from a connected person; and
- (4) the transaction is not made for the purpose of conferring a direct or indirect benefit upon any connected person who is a substantial shareholder of the target company.

Repurchases of securities by the listed issuer or its subsidiary

20.92 Repurchases of own securities by a listed issuer or its subsidiary from a connected person is fully exempt if it is made:

- (1) on the Exchange or a recognised stock exchange, except where the connected person knowingly sells the securities to the listed issuer's group; or
- (2) in a general offer made under the Code on Share Repurchases.

Directors' service contracts and insurance

20.93 A director entering into a service contract with the listed issuer or its subsidiary is fully exempt.

20.94 Purchase and maintenance of insurance for a director of the listed issuer or its subsidiaries against liabilities to third parties that may be incurred in the course of performing his duties are fully exempt if it is in the form permitted under the laws of Hong Kong and where the company purchasing the insurance is incorporated outside Hong Kong, the laws of the company's place of incorporation.

Proposal K adopted with modification

Buying or selling of consumer goods or services

20.95 A listed issuer's group buying consumer goods or services as a customer from, or selling consumer goods or services to, a connected person on normal commercial terms or better in its ordinary and usual course of business is fully exempt if it meets the following conditions:

- (1) the goods or services must be of a type ordinarily supplied for private use or consumption;
- (2) they must be for the buyer's own consumption or use, and not be:
 - (a) processed into the buyer's products, or for resale; or
 - (b) used by the buyer for any of its businesses or contemplated businesses. This condition does not apply if the listed issuer's group is the buyer and there is an open market and transparency in the pricing of the goods or services;
- (3) they must be consumed or used by the buyer in the same state as when they were bought; and
- (4) the transaction must be made on no more favourable terms to the connected person, or no less favourable terms to the listed issuer's group, than those available from independent third parties.

Note: Examples of consumer goods and services are:

- (1) *Meals consumed by a director at a restaurant owned by the listed issuer's group.*
- (2) *A director buying groceries for his own use at a retail store operated by the listed issuer's group.*
- (3) *Utilities provided by the listed issuer's group to a director's apartment.*
- (4) *Utilities provided by a connected person to the listed issuer's group where the prices are published or publicly quoted and apply to other independent consumers.*

Sharing of administrative services

20.96 Administrative services shared between the listed issuer's group and a connected person on a cost basis are fully exempt, provided that the costs are identifiable and are allocated to the parties involved on a fair and equitable basis.

Note: Examples of shared administrative services are shared secretarial, legal and staff training services.

Transactions with associates of passive investors

20.97 A connected transaction conducted between the listed issuer's group and an associate of a passive investor is fully exempt if it meets the following conditions:

- (1) the passive investor is a connected person only because it is a substantial shareholder of the listed issuer and/or any of its subsidiaries;

- (2) the passive investor
 - (a) is not a controlling shareholder of the listed issuer or its subsidiaries;
 - (b) does not have any representative on the board of directors of the listed issuer or its subsidiaries, and is not involved in the management of the listed issuer's group (including having any influence over the management of the listed issuer's group through negative control (e.g. its veto rights) on material matters of the listed issuer's group);
 - (c) is independent of the directors, chief executive, controlling shareholder(s) and any other substantial shareholder(s) of the listed issuer or its subsidiaries; and
- (3) the transaction is of a revenue nature in the ordinary and usual course of business of the listed issuer's group, and conducted on normal commercial terms or better.

20.98 A "passive investor" is a substantial shareholder of the listed issuer and/or any of its subsidiaries that:

- (1) is a sovereign fund, or a unit trust or mutual fund authorised by the Securities and Futures Commission or an appropriate overseas authority; and
- (2) has a wide spread of investments other than the securities of the listed issuer's group and the associate that enters into the transaction with the listed issuer's group.

Transactions with connected persons at the subsidiary level

20.99 A connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if:

- (1) the listed issuer's board of directors have approved the transactions; and
- (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuer and its shareholders as a whole.

Note: In the case of formation of a joint venture by a qualified issuer and a qualified connected person to make a qualified property acquisition, the qualified issuer must announce the transaction as soon as practicable after receiving notification of the success of the bid by the joint venture. If any details of the acquisitions or the joint venture required to be disclosed are not available when the qualified issuer publishes the initial announcement, it must publish subsequent announcement(s) to disclose the details as soon as practicable after they have been agreed or finalized.

Proposal A(2)(a) adopted

WAIVERS

- 20.100 The Exchange may waive any requirements under this Chapter in individual cases, subject to any conditions that it may impose.

Transactions relating to non-executive directors

- 20.101 The Exchange may waive all or some of the connected transaction requirements for a connected transaction with a non-executive director of the listed issuer or its subsidiaries if:

- (1) the transaction is connected only because of the interest of a non-executive director; and
- (2) the director does not control the listed issuer's group, and his principal business interest is not the listed issuer's group.

Where a waiver is granted from the shareholders' approval requirement under this rule, the Exchange may require the listed issuer's auditor or an acceptable financial adviser to give the opinion that the transaction is fair and reasonable to the shareholders as a whole.

Provision of guarantees to connected subsidiaries or commonly held entities for public sector contracts awarded by tender

- 20.102 The Exchange may waive all or some of the connected transaction requirements for a joint and several guarantee or indemnity provided by the listed issuer's group to a third party creditor for the obligations of a connected subsidiary or a commonly held entity if:

- (1) the guarantee or indemnity is required for a government or public sector contract awarded by tender;
- (2) each of the other shareholders of the connected subsidiary or commonly held entity has given a similar joint and several guarantee or indemnity to the third party creditor; and
- (3) each of the other shareholders of the connected subsidiary or commonly held entity has agreed to indemnify the listed issuer's group for the liability guaranteed, or indemnified at least in proportion to its equity interest in the subsidiary or entity. The listed issuer must satisfy the Exchange that such shareholder indemnity is sufficient.

Continuing connected transactions of new applicants

- 20.103 The Exchange may waive the announcement, circular and shareholders' approval requirements for continuing connected transactions entered into by a new applicant or its subsidiaries. The new applicant must disclose in the listing document its sponsor's opinion on whether the transactions are in the ordinary and usual course of business of the listed issuer's group, on normal commercial terms or better, are fair and reasonable and in the interests of the shareholders as a whole.

APPENDIX III CONSEQUENTIAL AMENDMENTS TO THE MAIN BOARD RULES

CHAPTER 1

GENERAL

INTERPRETATION

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1.01

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...

“substantial shareholder”

in relation to a company means a person (including a holder of depositary receipts) who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the company

provided always that a depositary shall not be a substantial shareholder merely by reason of the fact that it is holding shares of the issuer for the benefit of the holders of depositary receipts

Note: This definition is modified in the case of Chapter 14A by the provisions of rule 14A.2914A.13(1)(b)(i).

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Chapter 5

VALUATION OF AND INFORMATION ON PROPERTIES

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Requirements for an issuer

...

5.02A Valuation of a property interest is not required if:

(1) ...

(2) the property is acquired under a Qualified Property Acquisition (as defined in rule 14.04(10C)) falling under rules 14.33A to 14.33B ~~or rules 14A.72 to 14A.73~~; or

...

...

- 5.03 For an acquisition or a disposal of any property interest or of a company whose assets consist solely or mainly of property (including a company listed on the Exchange) from or to a connected person, a valuation of and information on the property must be included in any circular issued to shareholders in connection with the acquisition or disposal (see rule ~~14A.70(7)~~~~14A.59(6)~~). The circular must include full text of valuation reports and the general information in rule 5.10, if it applies.

...

Chapter 13

EQUITY SECURITIES

CONTINUING OBLIGATIONS

...

Pre-emptive rights

- 13.36 (1) (a) ...
 (b) ...
 (2) ...
 (a) ...
 (b) ...

Notes: 1. *Other than where independent shareholders' approval has been obtained, an issue of securities to a connected person pursuant to a general mandate given under rule 13.36(2)(b) is only permitted in the circumstances set out in rule ~~14A.92~~~~14A.31~~(3).*

2. ...

...

...

Meetings of Shareholders

- 13.39 (1) ...

...

(6) In relation to any ~~connected transactions pursuant to Chapter 14A,~~ transactions that are subject to independent shareholders' approval pursuant to the Exchange Listing Rules or spin-off proposals that are subject to approval of the shareholders of the issuer pursuant to paragraph 3 (e) of Practice Note 15 of the Exchange Listing Rules,

- (a) the issuer shall establish an independent board committee (which shall consist only of independent non-executive directors) to advise shareholders as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and to advise shareholders on how to vote, taking into account the recommendations of the independent financial adviser appointed under rule 13.39(6)(b);

- (b) the issuer shall appoint an independent financial adviser acceptable to the Exchange to make recommendations to the independent board committee and the shareholders as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and to advise shareholders on how to vote; and
 - (c) the independent board committee shall not consist of any independent non-executive directors who have a material interest in the relevant transaction or arrangement. The independent board committee may consist of only one independent non-executive director if all other independent non-executive directors have a material interest in the relevant transaction or arrangement. If all the independent non-executive directors have a material interest in the relevant transaction or arrangement, no independent board committee can be formed. In that event, the independent financial adviser shall make its recommendation to the shareholders only in the manner prescribed under rule 13.39(7)(b).
- (7) In relation to any ~~connected transactions pursuant to Chapter 14A,~~ transactions that are subject to independent shareholders' approval pursuant to the Exchange Listing Rules or spin-off proposals that are subject to approval of the shareholders of the issuer pursuant to paragraph 3 (e) of Practice Note 15 of the Exchange Listing Rules, the circular to shareholders must contain at least:
- (a) if applicable, a separate letter from the independent board committee advising shareholders as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and advising shareholders on how to vote, taking into account the recommendations of the independent financial adviser; and
 - (b) a separate letter from the independent financial adviser containing its recommendation to the independent board committee and shareholders (or, if applicable, to the shareholders only) as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and advising shareholders on how to vote. Such letter must set out the reasons for and the key assumptions made and factors taken into consideration in forming that opinion.
- (8) For any connected transactions, the requirements relating to the opinion and recommendation of the independent board committee and the independent financial adviser are set out in Chapter 14A.

Note: "Independent shareholders" under paragraphs (6) and (7) of this rule 13.39 means any shareholders other than controlling shareholders of the issuer and their associates or, where there are no controlling shareholders, any shareholders other than directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates.

...

Independent financial advisers

13.80 An independent financial adviser appointed under rule 13.39(6)(b), rule 14A.44 or rule 19.05(6)(a)(iii) must take all reasonable steps to satisfy itself that:

- (1) it has a reasonable basis for making the statements required by rule 14A.45~~paragraphs (1) to (5) of rule 14A.22~~; and
- (2) without limiting the generality of paragraph (1) above, there is no reason to believe any of the following information is not true or omits a material fact:
 - (a) any information relied on by the independent financial adviser in forming its opinion; or
 - (b) any information relied on by any third party expert on whose opinion or advice the independent financial adviser relies in forming its opinion.

Notes: 1.

2. *The Exchange expects the independent financial adviser will ensure the letter referred to at rule 14A.45~~14A.22~~ takes account of the following principles:*

(a) ...;

...

13.81 The issuer must:

- (1) afford any independent financial adviser it appoints pursuant to rule 13.39(6)(b), rule 14A.44 or rule 19.05(6)(a)(iii) full access at all time to all persons, premises and documents relevant to the independent financial adviser's performance of its duties as set out in the Exchange Listing Rules. In particular, ...

...

Chapter 14

EQUITY SECURITIES

NOTIFIABLE TRANSACTIONS

...

Definitions

14.04 For the purposes of this Chapter:—

(1) any reference to a “transaction” by a listed issuer:

(a) ...;

...

(e) includes granting an indemnity or a guarantee or providing financial assistance by a listed issuer, other than by a listed issuer which:

(i) is a banking company (as defined in rule ~~14A.06(3)~~14A.10(1)) and provides the financial assistance (as defined in rule ~~14A.06(17)~~14A.10(4)) in its ordinary and usual course of business (as referred to in rule 14.04(8));

(ii) ...; or

(iii) is a securities house and provides the financial assistance (as defined in rule ~~14A.06(17)~~14A.10(4)) in its ordinary and usual course of business (as referred to in rule 14.04(8)) and upon normal commercial terms, either:

(A) by way of securities margin financing (which means providing a financial accommodation in order to facilitate:

(aa) the acquisition of securities listed on any stock market, whether a recognized stock market (as defined in Schedule 1 to the Securities and Futures Ordinance) or any other stock market outside Hong Kong; and

(bb) (where applicable) the continued holding of those securities,

whether or not those or other securities are pledged as security for the accommodation); or

(B) for the purpose of a proposed acquisition of securities in accordance with the terms of a prospectus which is registered in Hong Kong and issued in respect of an initial public offering of equity securities to be listed in Hong Kong.

Note: Such a transaction may nevertheless in some cases constitute a connected transaction under Chapter 14A. In such cases, the listed issuer will have to comply with the provisions of Chapter 14A.

...

(5) “de minimis ratio” means the ratio determined in accordance with rules ~~14A.76, 14A.87(2) and 14A.87(3)~~ ~~14A.31(2), 14A.32, 14A.33(3), 14A.34, 14A.65(2), 14A.66(1) or 14A.66(2)~~ (as the case may be);

...

Contents of circulars

...

Circulars for specific types of companies

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14.71A Where a discloseable transaction, major transaction or very substantial acquisition involves a Qualified Property Acquisition ~~entered into pursuant to a General Property Acquisition Mandate as defined and described in Note to rule 14A.10 and rule 14A.74~~, the Qualified Issuer shall comply with additional ~~circularisation, announcement and reporting requirements with details as described in Chapter 14A under rules 14A.75 to 14A.78.~~

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Chapter 19A

EQUITY SECURITIES

ISSUERS INCORPORATED IN THE PEOPLE’S REPUBLIC OF CHINA

...

Chapter 8 — Qualifications for Listing

19A.19 In addition to the requirement of rule 19A.14, the Exchange may from time to time determine that certain persons or entities should be treated as connected persons of a PRC issuer for purposes of the connected transaction provisions of Chapter 14A. ~~However, the Exchange will normally not treat a PRC Governmental Body (see definition in rule 19A.04) as a connected person of a PRC issuer. If requested by the Exchange a PRC issuer must make written representations to the Exchange explaining its legal, commercial or other relationships with various associates or other persons or entities and must satisfy the Exchange that such persons or entities should not be treated as connected persons for the above purposes, or if the Exchange determines that such persons or entities should be treated as connected persons, then the PRC issuer must agree to comply with any additional obligations arising from such treatment as may be requested by the Exchange.~~

Chapter 13 — Continuing Obligations

...

Pre-emptive rights

19A.38 The requirements of rule 13.36(1) and (2) are replaced in their entirety by the following provisions:

“13.36 (1) (a) ...

...

(2) ...

(a) ...

(b) ...

Notes: (1) Other than where independent shareholders' approval has been obtained, an issue of securities to a connected person pursuant to a general mandate given under rule 13.36(2) is only permitted in the circumstances set out in rule ~~14A.92~~14A.31(3).

(2) ...

(3) ...”

Chapter 14 — Notifiable Transactions

19A.39A The timing for despatching a circular under rules 13.73, 14.41(b), 14.51, ~~14A.46(1)~~14A.49(b) and 17.06 is modified to require a PRC issuer to despatch the circular on or before the deadline for giving notice of the general meeting under the Company Law.

...

Practice Note 12

VALUATIONS OF PROPERTY SITUATED IN DEVELOPING PROPERTY MARKETS

10. Notifiable Transactions and Connected Transactions

Where in any transaction which are subject to Chapters 14 and/or 14A ~~falls within rules 14.06 and 14A.13~~ of the Exchange Listing Rules, the relevant party is or intends to contribute capital or to contribute to or become liable for all or part of the cost of development of any property project or development, or to any company or venture involved in any development project, then the Exchange:

(a) may require further disclosure of how such capital contribution or development costs have been derived;

(b) may require an independent valuation report even if such report is not expressly required under Chapter 5 of these Rules; and

- (c) may consider taking account of such capital or cost contributions when considering whether the transaction falls within any of the categories of notifiable transactions and connected transactions referred to in Chapters 14 and 14A rules 14.06 and 14A.13 of the Exchange Listing Rules.

...

Appendix 1

Contents of Listing Documents

Part B

Equity Securities

In the case where listing is sought for equity securities of an issuer some part of whose share capital is already listed

18. Where the securities for which listing is sought are offered by way of rights or by way of an open offer to the holders of an existing listed security, a statement as to:—
- (1) ...;
- ...
- (4) the matters required to be disclosed by Rules 7.19(2), (3), (4), (6) and (7), 7.21(1) and (2), 7.24(2), (3), (5) and (6), 7.26A(1) and (2) and/or 14A.92(2)(b)14A.31(3)(e), where appropriate.

...

Appendix 1

Contents of Listing Documents

Part F

Depository receipts

46. Where the securities for which listing is sought are offered by way of rights or by way of an open offer to the holders of an existing listed security, a statement as to:—
- (1) ...;
- ...
- (4) the matters required to be disclosed by rules 7.19(2), (3), (4), (6) and (7), 7.21(1) and (2), 7.24(2), (3), (5) and (6), 7.26A(1) and (2) and/or 14A.92(2)(b)14A.31(3)(e), where appropriate.

...

Appendix 16

DISCLOSURE OF FINANCIAL INFORMATION

Information in annual reports

...

8. (1) In relation to connected transactions (including continuing connected transactions) that are not exempt from annual reporting requirement in Chapter 14A under rule 14A.34, a listed issuer shall include particulars of the transactions pursuant to rule 14A.71~~14A.45~~.
- ~~(2) In relation to continuing connected transactions that are not exempt under 14A.33, a listed issuer shall include particulars of the transactions pursuant to rules 14A.45 and 14A.46.~~
- ~~(2)~~ (3) Where a listed issuer includes in its annual report particulars of a related party transaction or continuing related party transaction (as the case may be) in accordance with applicable accounting standards adopted for the preparation of its annual financial statements, it must specify whether or not the transaction falls under the definition of “connected transaction” or “continuing connected transaction” (as the case may be) in Chapter 14A of the Exchange Listing Rules. The listed issuer must also confirm whether or not it has complied with the disclosure requirements in accordance with Chapter 14A of the Exchange Listing Rules.
48. Subject to rules 11.09, 14.67, 14.69, and 14A.64~~14A.60~~, the circular shall, in addition to those items specified in Part B of Appendix 1, contain:–
- (1) financial statements as set out in paragraph 2;
- 48.1 *Where there have been material changes in group structure of the business or company acquired during the period covered by the accountants’ report, the listed issuer should consult with the Exchange at the earliest opportunity in respect of the contents and presentation of the cash flow statement in the circular.*
- (2) a discussion and analysis of the performance of the business or company acquired during the period covered by the accountants’ report covering all those matters set out in paragraph 32; and
- (3) where the listed issuer is regarded as a financial conglomerate (as defined in paragraph 36), all information required by paragraph 35. If, in the opinion of the directors of the listed issuer, the market risk arising from the trading book is not considered as material, a statement to this effect shall be made and the information required by sub-paragraph 35(4)(a) may be omitted.

APPENDIX IV CONSEQUENTIAL AMENDMENTS TO THE GEM RULES

Chapter 1

GENERAL

INTERPRETATION

...

1.01

...

...

“substantial shareholder”

in relation to a company means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the company

Note: This definition is qualified in the case of connected transactions falling within rule ~~20.27~~20.13(1)(b)(i).

...

Chapter 8

VALUATION OF AND INFORMATION ON PROPERTIES

...

Requirements for an issuer

...

8.02A Valuation of a property interest is not required if:

(1) ...

(2) the property is acquired under a Qualified Property Acquisition (as defined in rule 19.04(10C)) falling under rules 19.33A to 19.33B ~~or rules 20.72 to 20.73~~; or

...

...

8.03 For an acquisition or a disposal of any property interest or a company whose assets consist solely or mainly of property (including a company listed on the Exchange) from or to a connected person, a valuation of and information on the property must be included in any circular issued to shareholders in connection with the acquisition or disposal (see rule ~~20.68(7)~~20.59(7)). The circular must include full text of valuation reports and the general information in rule 8.36, if it applies.

Chapter 9

GENERAL

TRADING HALT, SUSPENSION AND RESUMPTION OF DEALINGS, ~~CANCELLATION~~ CANCELLATION AND WITHDRAWAL OF LISTING

...

Trading halt or suspension

9.03 An issuer shall endeavour to avoid any trading halt or suspension of dealings in its securities.

Notes: 1 ...

2 ...

3 *Where a detailed announcement may take time to prepare, the issuer should, subject to rules 19.37 and ~~20.33~~20.47 concerning announcements of notifiable and connected transactions, consider making a short announcement to disclose information which is or may be inside information (and for the purpose of avoiding a suspension). This could be followed, at the soonest practicable opportunity thereafter, with a detailed announcement giving all information required by the GEM Listing Rules.*

Chapter 13

EQUITY SECURITIES

RESTRICTIONS ON PURCHASE, DISPOSAL AND SUBSCRIPTION

...

Restrictions on disposal of shares following the listing of a new applicant

13.15 For the purposes of rules 13.15 to 13.20, the following terms have the following meanings:—

...

(5) references to a “disposal” (of securities) includes the creation of any option, rights or interests (over such securities) but shall exclude the following:

(a) ...

(b) any placing and issue of securities made in the manner described in rule ~~20.90(4)~~20.34(3)(d) during the second six month period of the issuer’s listing date where:

(i) there is no change in the number of securities held by the relevant shareholder before and after completion of the placing and issue of securities; and

(ii) the placing of securities does not result in a controlling shareholder of the issuer ceasing to be a controlling

shareholder after completion of the placing and issue of securities.

...

Chapter 17

EQUITY SECURITIES

CONTINUING OBLIGATIONS

...

Pre-emptive rights

...

17.41 No such consent as is referred to in rule 17.39 shall be required:—

(1) ...

(2) ...

Note: Other than where independent shareholders' approval has been obtained, an issue of securities to a connected person pursuant to a general mandate given under rule 17.41(2) is only permitted in the circumstances set out in rule ~~20.90~~~~20.31~~(3).

...

Meetings of holders of securities

17.47 (1) ...

...

(6) In relation to any ~~connected transactions pursuant to Chapter 20 of the GEM Listing Rules~~, transactions that are subject to independent shareholders' approval pursuant to the GEM Listing Rules, any issue of shares or securities convertible into equity securities of an issuer pursuant to rule 17.29(5) or spin-off proposals that are subject to approval of the shareholders of the issuer pursuant to paragraph 3(e) of Practice Note 3,

(a) the issuer shall establish an independent board committee (which shall consist only of independent non-executive directors) to advise shareholders as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and to advise shareholders on how to vote, taking into account the recommendations of the independent financial adviser appointed under rule 17.47(6)(b);

(b) the issuer shall appoint an independent financial adviser acceptable to the Exchange to make recommendations to the independent board committee and the shareholders as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and to advise shareholders on how to vote; and

- (c) the independent board committee shall not consist of any independent non-executive directors who have a material interest in the relevant transaction or arrangement. The independent board committee may consist of only one independent non-executive director if all other independent non-executive directors have a material interest in the relevant transaction or arrangement. If all the independent non-executive directors have a material interest in the relevant transaction or arrangement, no independent board committee can be formed. In that event, the independent financial adviser shall make its recommendation to the shareholders only in the manner prescribed under rule 17.47(7)(b).
- (7) ~~In relation to any connected transactions pursuant to Chapter 20 of the GEM Listing Rules,~~ transactions that are subject to independent shareholders' approval pursuant to the GEM Listing Rules, any issue of shares or securities convertible into equity securities of an issuer pursuant to rule 17.29(5) or spin-off proposals that are subject to approval of the shareholders of the issuer pursuant to paragraph 3(e) of Practice Note 3, the circular to shareholders must contain at least:
- (a) if applicable, a separate letter from the independent board committee advising shareholders as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and advising shareholders on how to vote, taking into account the recommendations of the independent financial adviser; and
- (b) a separate letter from the independent financial adviser containing its recommendation to the independent board committee and shareholders (or, if applicable, to the shareholders only) as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the issuer and its shareholders as a whole and advising shareholders on how to vote. Such letter must set out the reasons for and the key assumptions made and factors taken into consideration in forming that opinion.
- (8) For any connected transactions, the requirements relating to the opinion and recommendation of the independent board committee and the independent financial adviser are set out in Chapter 20.

Note: "Independent shareholders" under paragraphs (6) and (7) of this rule 17.47 means any shareholders other than controlling shareholders of the issuer and their associates or, where there are no controlling shareholders, any shareholders other than directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates.

...

Miscellaneous obligations

...

Independent financial advisers

17.92 An independent financial adviser appointed under rule 17.47(6)(b), rule 20.42 or rule 24.05(6)(a)(ii) must take all reasonable steps to satisfy itself that:

- (1) it has a reasonable basis for making the statements required by rule 20.43~~paragraphs (1) to (5) of rule 20.22~~; and
- (2) without limiting the generality of paragraph (1) above, there is no reason to believe any of the following information is not true or omits a material fact:
 - (a) any information relied on by the independent financial adviser in forming its opinion; or
 - (b) any information relied on by any third party expert on whose opinion or advice the independent financial adviser relies in forming its opinion.

Notes: 1. ...

2. *The Exchange expects the independent financial adviser will ensure the letter referred to at rule ~~20.43~~20.22 takes account of the following principles:*

...

...

Chapter 18

EQUITY SECURITIES

FINANCIAL INFORMATION

...

Annual reports

...

18.09 (1) In relation to connected transactions (including continuing connected transactions) that are not exempt from annual reporting requirement in Chapter 20 ~~under rule 20.31~~, particulars of the transactions pursuant to rule ~~20.69~~20.45.

~~(2) In relation to continuing connected transactions that are not exempt under rule 20.33, particulars of the transactions pursuant to rules 20.45 and 20.46.~~

~~(2)~~ (3) Where a listed issuer includes in its annual report particulars of a related party transaction or continuing related party transaction (as the case may be) in accordance with applicable accounting standards adopted for the preparation of its annual financial statements, a statement as to whether or not the transaction falls under the definition of “connected transaction” or “continuing connected transaction” (as the case may be) in Chapter 20. The listed issuer must also confirm whether or not it has complied with the disclosure requirements in accordance with Chapter 20.

...

Chapter 19

EQUITY SECURITIES

NOTIFIABLE TRANSACTIONS

...

Definitions

19.04 For the purposes of this Chapter:—

- (1) any reference to a “transaction” by a listed issuer:
- (a) ...
...
- (e) includes granting an indemnity or a guarantee or providing financial assistance by a listed issuer, other than by a listed issuer which:
- (i) is a banking company (as defined in rule ~~20.06(3)~~~~20.10(1)~~) and provides the financial assistance (as defined in rule ~~20.06(17)~~~~20.10(4)~~) in its ordinary and usual course of business (as referred to in rule 19.04(8));
- (ii) grants an indemnity or a guarantee, or provides financial assistance to its subsidiaries; or
- (iii) is a securities house and provides the financial assistance (as defined in rule ~~20.06(17)~~~~20.10(4)~~) in its ordinary and usual course of business (as referred to in rule 19.04(8)) and upon normal commercial terms, either:
- (A) by way of securities margin financing (which means providing a financial accommodation in order to facilitate:
- (aa) the acquisition of securities listed on any stock market, whether a recognized stock market (as defined in Schedule 1 to the Securities and Futures Ordinance) or any other stock market outside Hong Kong; and
- (bb) (where applicable) the continued holding of those securities,
- whether or not those or other securities are pledged as security for the accommodation); or
- (B) for the purpose of a proposed acquisition of securities in accordance with the terms of a prospectus which is registered in Hong Kong and issued in respect of an initial public offering of equity securities to be listed in Hong Kong.

Note: Such a transaction may nevertheless in some cases constitute a connected transaction under Chapter 20. In such cases, the listed issuer will have to comply with the provisions of Chapter 20.

...

- ...
- (5) “de minimis ratio” means the ratio determined in accordance with rules 20.74, 20.85(2) and 20.85(3) ~~20.31(2), 20.32, 20.33(3), 20.34, 20.65(2), 20.66(1) or 20.66(2)~~ (as the case may be);
- ...

...

Contents of circulars

...

Circulars for specific types of companies

- 19.71A Where a discloseable transaction, major transaction or very substantial acquisition involves a Qualified Property Acquisition ~~entered into pursuant to a General Property Acquisition Mandate as defined and described in Note to rule 20.9920.10 and rule 20.74,~~ the Qualified Issuer shall comply with additional circularisation, announcement and reporting requirements with details as described in chapter 20 under rules ~~20.75 to 20.78.~~
- ...

Chapter 25

EQUITY SECURITIES

ISSUERS INCORPORATED IN THE PEOPLE’S REPUBLIC OF CHINA

...

Chapter 11 – Qualifications for Listing

...

- 25.14 In addition to the requirement of rule 25.10, the Exchange may from time to time determine that certain persons or entities should be treated as connected persons of a PRC issuer for the purposes of the connected transaction provisions of Chapter 20. ~~However, the Exchange will normally not treat a PRC Governmental Body as a connected person of a PRC issuer. If requested by the Exchange, a PRC issuer must make written representations to the Exchange explaining its legal, commercial or other relationships with various associates or other persons or entities and must satisfy the Exchange that such persons or entities should not be treated as connected persons of the PRC issuer for the above purposes, or if the Exchange determines that such persons or entities should be treated as connected persons, then the PRC issuer must agree to comply with any additional obligations arising from such treatment as may be requested by the Exchange.~~
- ...

Chapters 17 and 18 – Continuing Obligations and Financial Information

Pre-emptive rights

- 25.23 The requirements of rules 17.39 to 17.41 are replaced in their entirety by the following provision:—
- “17.39 ...
- 17.40 ...
- 17.41 ...

Notes: 1 *Other than where independent shareholders' approval has been obtained, an issue of securities to a connected person pursuant to a general mandate given under rule 17.41(2) is only permitted in the circumstances set out in rule 20.90~~20.31(3)~~.*

2 ...”

...

Despatch of circular and listing document

25.34A The timing for despatching a circular under rules 17.46(2), 19.41(b), 19.51, 20.44(1)~~20.49(b)~~ and 23.06 is modified to require a PRC issuer to despatch the circular on or before the deadline for giving notice of the general meeting under the Company Law.

...

Appendix 1

Contents of Listing Documents

Part B

Equity Securities

In the case where listing is sought for equity securities of an issuer some part of whose share capital is already listed

...

18. Where the securities for which listing is sought are offered by way of rights or by way of an open offer to the holders of an existing listed security, a statement as to:—

(1) ...;

...

(4) the matters required to be disclosed by rules 10.25, 10.27, 10.28, 10.29, 10.29A and 10.31 (in the case of a rights issue) and 10.36, 10.38, 10.39, 10.39A and 10.42 (in the case of an open offer) and/or 20.90(2)(b)~~20.31(3)(e)~~, as appropriate.

...

APPENDIX V LIST OF RESPONDENTS

Listed issuers

1. AIA Group Limited
2. Air China Limited
3. Cathay Pacific Airways Limited
4. Cheung Kong (Holdings) Limited
5. CLP Holdings Limited
6. Great Eagle Holdings Limited
7. Guoco Group Limited
8. Henderson Land Development Company Limited
9. HKT Trust & HKT Limited
10. Hong Kong Aircraft Engineering Company Limited
11. Hong Kong Ferry (Holdings) Company Limited
12. HSBC Holdings plc
13. Hutchison Whampoa Limited
14. PCCW Limited
15. Standard Chartered PLC
16. Swire Pacific Limited
17. Swire Properties Limited
18. to 38. 21 Main Board issuers (*name not disclosed at the respondents' request*)

Professional and industry associations

39. ACCA
40. The Chamber of Hong Kong Listed Companies
41. The Hong Kong Association of Banks
42. The Hong Kong Institute of Certified Public Accountants
43. The Hong Kong Institute of Chartered Secretaries
44. The Hong Kong Institute of Directors
45. The Law Society of Hong Kong

Market practitioners

46. Baker & McKenzie LLP
47. Cleary Gottlieb Steen & Hamilton (Hong Kong)
48. Davis Polk & Wardwell
49. Ernst & Young
50. Freshfields Bruckhaus Deringer
51. KPMG
52. Latham & Watkins

- 53. Mayer Brown JSM
- 54. Morrison & Foerster
- 55. P.C. Woo & Co.
- 56. Shinewing Risk Services Limited
- 57. Slaughter and May
- 58. 1 market practitioner (*name not disclosed at the respondent's request*)

Individuals and other entity

- 59. Companies Registry
- 60. Suen Chi Wai
- 61. Yan Ling Xi
- 62. to 63. 2 individuals (*name not disclosed at the respondents' request*)

