



CONSULTATION CONCLUSIONS ON PROPOSED CHANGES TO CONNECTED TRANSACTION RULES

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

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EXECUTIVE SUMMARY

This paper presents the results of the public consultation on our proposals to address specific issues in the regulation of connected transactions under the Listing Rules.

In the consultation paper, we sought market views on whether the definition of connected person should exclude persons connected at the subsidiary level. While a majority of the respondents were in favour of this proposal, we also note the concern of a substantial number of respondents about the possible abuse of a general exemption for all these connected persons at one time.

We have decided not to adopt the proposal. In light of the general market support, we will proceed with the proposed “insignificant subsidiary exemption”, subject to some modifications described in Chapter 2. This will help reduce issuers’ compliance burden on transactions with persons connected at the subsidiary level.

The other proposals in the consultation paper were also well-received by the market. We will proceed with these proposals with some amendments identified in Chapter 2.

We have finalised the Rule amendments to implement the proposals. They have been made by the Board of The Stock Exchange of Hong Kong Limited and approved by the Securities and Futures Commission, and will become effective on 3 June 2010.

This consultation addressed some specific connected transaction requirements that are burdensome, restrictive or have unintended effects. As part of our continuing initiatives to enhance the effectiveness of our Rules, we will continue to review our connected transaction Rules and consult the market on new proposals.

CHAPTER 1 INTRODUCTION

1. On 2 October 2009, 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 Proposed Changes to the Connected Transaction Rules. The consultation paper sought comments on proposals to review the definition of connected person, provide exemptions for connected transactions which are immaterial or involve persons not in a position to exercise significant influence, and amend the Listing Rules to address technical issues.
2. The consultation period ended on 2 December 2009. We received a total of 70 submissions from listed issuers, professional and industry associations, market practitioners and individuals. A list of respondents is provided in the **Appendix**.
3. The full text of all submissions is available on the HKEx website at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp200910ctr.htm>.
4. We received overwhelming support from the market for most of our proposals, with some recommended amendments. Chapter 2 summarises the major comments and our responses. Chapter 2 summarises the major comments and our responses. We also received valuable comments on other connected transaction Rules which were not covered in the consultation. These comments will be considered in the next phase of our review of the connected transaction Rules.
5. 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 3 June 2010.
6. We would like to thank all those who shared their views with us during the consultation process.
7. This paper should be read in conjunction with the consultation paper, which is posted on the HKEx website. The Rule references are to the Main Board Rules. Unless otherwise specified, the discussion applies equally to the GEM Rules.

CHAPTER 2 MARKET FEEDBACK AND CONCLUSIONS

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

(1) Whether the definition of connected person should exclude persons connected by virtue of their relationship with an issuer’s subsidiaries (Consultation Questions 1 and 2)

8. A connected person includes a director, chief executive, substantial shareholder of the issuer or any of its subsidiaries, or an associate of any of them. For a PRC issuer, connected persons also include promoters and supervisors of the issuer and any of its subsidiaries.
9. Under the current Rules, transactions with persons connected at the issuer level and those with persons connected at the subsidiary level are subject to the same connected transaction requirements. We stated in the consultation paper our view that the current Rules on transactions with persons connected at the subsidiary level are onerous and Rule changes in this area are necessary.
10. We sought market views on whether the definition of connected person should exclude persons connected by virtue of their relationship with an issuer’s subsidiaries.

Comments received

11. A large majority of the respondents agreed that the definition of connected person should exclude persons connected by virtue of their relationship with an issuer’s subsidiaries. They generally agreed with the arguments presented in the consultation paper to relax the requirements for transactions with persons connected at the subsidiary level. Some respondents commented that the requirements should be relaxed gradually.
12. A number of respondents expressed dissenting views. They were concerned about potential abuse if a general exemption is granted for all transactions with persons connected at the subsidiary level at one time. Some respondents pointed out that the potential influence of persons connected at the subsidiary level could be significant as activities of most issuers are carried out by their subsidiaries, and there is a need to regulate issuers’ transactions with these persons. Some considered it more appropriate for the Rules to provide exemptions for transactions under specific circumstances rather than a general exemption to exclude all

persons connected at the subsidiary level from the definition of connected person. Most of the opposing respondents to this question supported the proposed “insignificant subsidiary exemption” (see section A(2)).

Our response

13. The responses indicated strong market support for excluding persons connected only at the subsidiary level from the definition of connected person. We also note some respondents’ concerns about the possible abuse if a general exemption is granted to all these connected persons, and the views that these changes would be material and should be implemented gradually.
14. We have decided to adopt a phased approach, and propose to review the scope of the connected transaction Rules to govern persons who are in positions of control or significant influence, and transactions which pose higher risks to the market. In our review we will take into account the respondents’ views in this consultation, the corporate structures of Hong Kong listed issuers and the nature of their relationships with related persons, and the development of the regulations of overseas jurisdictions. We will consult the market on further proposals.

(2) Proposed exemption for transactions with persons connected with “insignificant subsidiaries” (Consultation Questions 3 to 6)

15. On the basis that the definition of connected person would continue to include persons connected at the subsidiary level, we proposed to introduce an exemption for transactions where the person involved is a connected person only by virtue of his relationship with a subsidiary or subsidiaries whose size is, individually or in aggregate, “insignificant” to the issuer.

Definition of an “insignificant subsidiary”

16. We proposed the following options for defining an “insignificant subsidiary”:
 - *Option 1:* a subsidiary whose total assets, profits and revenue represent less than 5% of the issuer group’s total assets, profits and revenue in the latest financial year; or
 - *Option 2:* a subsidiary whose total assets, profits and revenue represent less than 10% of the issuer group’s total assets, profits and revenue in each of the latest three financial years.

If a person is connected to more than one subsidiary of the issuer, the total assets, profits and revenue of all the relevant subsidiaries would be aggregated in determining whether they are insignificant to the issuer.

Consideration test

17. Where the insignificant subsidiary concerned is itself a party to the transaction or its securities/ assets are the subject of the transaction, we proposed the exemption will only apply if the result of the consideration ratio is less than 10%.

Additional requirements for continuing connected transactions

18. For a continuing connected transaction which falls within this exemption, we also proposed that:
- the duration of the agreement must not exceed three years except in special circumstances (as currently required for non-exempted connected transactions); and
 - the issuer must reassess the situation annually based on the latest published audited financial information of the issuer group. If the connected person no longer qualifies for the exemption, the issuer must disclose the facts in its annual report and comply with the reporting requirements for continuing connected transactions.

The issuer must comply with all applicable connected transaction requirements (including independent shareholders' approval) when it changes the terms of the existing agreement or enters into a new agreement for the continuing connected transaction.

Comments received

19. The proposed exemption was supported by a large majority of respondents. They considered that the proposal would help reduce issuers' compliance burden in circumstances where the risk of potential abuse is low.
20. Most respondents who opposed this exemption were in favour of a general exemption to exclude all persons connected at the subsidiary level from the definition of connected person as described in section A(1). Some opposing respondents also commented that the proposed exemption would be difficult and costly to implement and monitor, particularly if issuers are required to keep a record of their insignificant subsidiaries. Some considered that the size of a subsidiary might not be relevant for assessing its connected person's influence over the issuer group.

Definition of an “insignificant subsidiary”

21. For the definition of an “insignificant subsidiary”, a majority of the respondents preferred option 2 (i.e. a 10% threshold calculated based on the total assets, profits and revenue of the issuer and the relevant subsidiary in each of the latest three financial years). Some respondents stated that they consider a 10% threshold more practicable. Nevertheless, there were some comments on this option:
- The 10% threshold should be calculated based on the financial figures in the latest financial year only to lessen the issuer’s compliance burden. Some suggested using the average value of the financial figures over the three financial years to smooth out any exceptional fluctuations and anomalous results. Some also suggested that the Exchange should consider granting a waiver from the 10% threshold if the issuer’s financial results had been temporarily and adversely affected by the general economic climate.
 - The proposed exemption should also be applicable to a newly established or acquired subsidiary which has been with the issuer group for less than three years, as long as it is insignificant to the issuer group.
22. Some respondents preferred option 1 because this would be in line with the concept of a “major subsidiary” in existing Rule 13.25 (see section A(3)).
23. Some respondents disagreed with the use of the assets ratio, profits ratio and revenue ratio to assess the significance of a subsidiary. A number of these respondents preferred the assets ratio and suggested excluding the revenue ratio and/or the profits ratio.

Consideration test

24. The respondents had diverse views on the proposal to require the consideration ratio for the transaction be less than 10% if the insignificant subsidiary concerned is itself a party to the transaction or its securities / assets are the subject of the transaction.
25. The respondents who supported this proposed requirement generally considered that it was sensible and would provide additional safeguard for shareholders’ protection in transactions between an insignificant subsidiary and the person connected with the subsidiary.

26. A slight majority of respondents considered it unnecessary to impose a requirement on the consideration ratio. The exemption should apply when the subsidiary is insignificant to the issuer group, and the consideration ratio would be irrelevant. Some pointed out that this additional requirement would be burdensome. Unlike the UK related party transaction rules which apply to capital transactions only, our connected transaction Rules also apply to revenue transactions.
27. In our soft consultation, some participants pointed out that even though a subsidiary is “insignificant”, the issuer would need to monitor each transaction between the subsidiary and its connected person because the Rules require aggregation of continuing connected transactions when calculating the percentage ratios. The proposed requirement would undermine the usefulness of the insignificant subsidiary exemption.

Additional requirements for continuing connected transactions

28. A majority of the respondents supported the proposed requirements for applying the exemption to continuing connected transactions.
29. The opposing respondents generally took the view that the proposed requirements would be unduly burdensome. When a subsidiary is classified as insignificant, continuing connected transactions with persons connected with it should be fully exempt. These transactions should not be subject to any requirements that are applicable to non-exempt connected transactions under the Rules. Some respondents commented that it would be cumbersome for an issuer to prepare and update a list of its insignificant subsidiaries and to make an annual reassessment. They considered it sufficient for the issuer to consider whether the exemption would apply at the time of entering into transactions with any persons connected with its subsidiaries.

Our response

Definition of an “insignificant subsidiary”

30. In light of the market support, we believe that the proposed “insignificant subsidiary exemption” with a 10% threshold for assessing a subsidiary’s materiality is reasonable and appropriate.
31. Some respondents suggested adopting a flexible approach to assess the materiality of a subsidiary and allow for fluctuations (see paragraph 21). Nevertheless, since we are adopting a higher threshold of 10%, we consider a subsidiary should fall within the threshold in each of the latest three financial years to qualify for the exemption. We also require the assessment to be made with reference to the assets

- ratio, revenue ratio and profits ratio. This is in line with the size test calculation under the current Rules and allows an assessment of a subsidiary's materiality from different perspectives.
32. We note some respondents' concern that a percentage ratio calculation (e.g. the revenue or profits ratio) may not reflect a subsidiary's materiality in some circumstances or may give rise to anomalous results. We believe that this can be dealt with on a case-by-case basis following the principle of Rule 14.20. This rule allows the Exchange to disregard any percentage ratio calculation that produces an anomalous result and to consider an alternative size test.
 33. We will apply the "anomalous test" in the same manner as it currently applies to classification of transactions. That is, it will address circumstances where a particular percentage ratio is out of line with the others or does not reflect the subsidiary's materiality. We do not expect the "anomalous test" to provide dispensations where there are fluctuations in the relative size of the subsidiary over the three years.
 34. We agree with the respondents' view that the proposed exemption should also apply to subsidiaries which have been part of the listed group for less than three years if they are insignificant to the issuer group. For a subsidiary established for less than 3 years, the assessment would be based on its accounts for the period since its establishment. For an acquired subsidiary, the assessment would be based on its accounts for the latest three financial years. Where no accounts have been prepared (e.g. newly established subsidiary), a suitable size test may be proposed by the issuer.
 35. We also note that some respondents preferred option 1 (i.e. a 5% threshold for the latest financial year). Although its percentage threshold for assessing a subsidiary's materiality is lower than that in option 2, it allows the assessment to be made with reference to the latest year accounts only. We agree that a subsidiary falling into option 1 should be regarded as "insignificant" and the exemption should also apply. We will amend the Rules to allow an exemption if option 1 or option 2 is met.

Consideration test

36. The proposed consideration test was intended to provide an additional safeguard against potential abuse in significant transactions given the connected person's direct influence over the subsidiary concerned. Having considered the market responses described in paragraphs 26 and 27, we will apply the consideration test for capital transactions only (e.g. subscription of new shares in the subsidiary by its

connected person, or the subsidiary acquiring or disposing of a business from or to its connected person).

Additional requirements for continuing connected transactions

37. We agree with the respondents' comments that transactions falling within the insignificant subsidiary exemption should be exempt from all connected transaction requirements. This would follow the principle of Rules 14A.31 and 14A.33 for fully exempted connected transactions. The proposed requirements on the duration of agreement and annual reassessment of exempted transactions would be unnecessary.
38. Similar to other exemptions for connected transactions under the current Rules, an issuer should assess whether the connected person and the transaction qualify for the insignificant subsidiary exemption at the time of entering into each transaction.
39. We have clarified in the Rules that where the connected person no longer qualifies for the exemption, the issuer must comply with all applicable connected transaction requirements for the subsequent continuing connected transactions with this person. The only exception is where the issuer has entered into an agreement for the continuing connected transactions for a fixed period with fixed terms and the exemption applies at the time of entering into the agreement. In this case, the issuer is only required to comply with the applicable reporting, annual review and announcement requirements if the connected person no longer qualifies for the exemption during the term of the agreement. This would address the concern over possible abuse of the exemption if an issuer enters into an indefinite agreement for continuing connected transactions at the time when the subsidiary is still insignificant.
40. For example, where an issuer enters into an agreement with a person connected with its subsidiary for leasing an office building for a fixed period with fixed terms, the issuer should assess whether the insignificant subsidiary exemption applies at the time of entering into the lease agreement. It would not be required to reassess the situation annually. If the connected person no longer qualifies for the exemption during the term of the agreement, the issuer would only be required to comply with the applicable reporting, annual review and announcement requirements.
41. In another example, if an issuer wishes to apply the exemption to its purchases of raw materials from a person connected at the subsidiary level, it must ensure that the subsidiary concerned is "insignificant" at the time of each purchase. In this scenario we will not require a framework agreement to be signed. If the connected person no longer qualifies for the exemption and it continues to supply

raw materials to the issuer, the subsequent transactions will be subject to all applicable connected transaction requirements.

The revised proposal

42. We will proceed with the proposal with the modifications described above to simplify the exemption and reduce issuers' cost of administration of the exemption. Under the revised proposal:
- (a) Transactions between the issuer and a person are exempted if he is connected to the issuer only by virtue of his relationship with an "insignificant" subsidiary.
 - (b) A subsidiary is "insignificant" if
 - (i) the values of its total assets, profits and revenue represent less than 10% of the issuer's total assets, profits and revenue based on the accounts for each of the latest three financial years (or if less, the period since the establishment of the subsidiary); or
 - (ii) the values of its total assets, profits and revenue represent less than 5% of the issuer's total assets, profits and revenue based on the accounts for the latest financial year.
 - (c) If the person is connected to more than one subsidiary, the total assets, profits and revenue of all the relevant subsidiaries would be aggregated.
 - (d) If any percentage ratio calculation produces an anomalous result, we may disregard the calculation and consider an alternative test.
 - (e) The exemption is not available if the insignificant subsidiary is itself a party to the transaction or its securities/ assets are the subject of the transaction, the transaction is capital in nature and the transaction's size is 10% or more based on the consideration ratio.
 - (f) If a connected person no longer qualifies for the exemption, the issuer must, subject to paragraph (g) below, comply with all applicable connected transaction requirements for its subsequent continuing connected transactions with this person.

- (g) The only exception is where:
 - (i) the issuer has entered into an agreement for the continuing connected transactions for a fixed period with fixed terms; and
 - (ii) the exemption applies at the time of entering into the agreement.

In this case, the issuer is only required to comply with the applicable reporting, annual review and announcement requirements if the connected person no longer qualifies for the exemption during the term of the agreement.

(3) Definition of “major subsidiary” for the disclosure requirement in Chapter 13 (Consultation Question 7)

- 43. Rule 13.25 contains a specific disclosure requirement for information relating to winding-up or liquidation of an issuer, its holding company or any major subsidiary. It defines a “major subsidiary” as a subsidiary where the value of its assets, profits or revenue represents 5% or more under any of the percentage ratios as defined in Rule 14.04(9).
- 44. In the consultation paper, we sought market views on whether the definition of “major subsidiary” under Rule 13.25 should be amended to align with that in the “insignificant subsidiary exemption” if adopted.

Comments received

- 45. The respondents generally supported amending the definition of “major subsidiary” under Rule 13.25 to align it with the “insignificant subsidiary exemption”. They considered the alignment would achieve a better consistency in the Rules and avoid confusion.
- 46. A few respondents expressed dissenting views. Some considered that the thresholds for the disclosure requirement under Rule 13.25 and the “insignificant subsidiary exemption” need not be the same as they govern different matters under the Listing Rules. Others considered that the 5% threshold under Rule 13.25 should be maintained to ensure shareholders are keep informed of material changes in financial conditions of the issuer group.

Our response

- 47. We agree with the respondents’ views set out in paragraph 46 and have decided to keep the current threshold for disclosure under Rule 13.25. For clarity we will delete “major” in the term “major subsidiary” in Rule 13.25.

B. De minimis thresholds that trigger disclosure or shareholders' approval requirements for connected transactions (Consultation Questions 8 to 11)

48. Under the current 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) equal to or more than 0.1% but less than 2.5% 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 2.5%; or
 - (ii) equal to or more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000.
49. We proposed to revise the percentage thresholds from 0.1% to 1% (for exemption from all reporting, announcement and shareholders' approval requirements) and from 2.5% to 5% (for exemption from the shareholders' approval requirement).
50. We also sought market views on:
- whether a percentage threshold is sufficient to assess whether a connected transaction is eligible for the de minimis exemptions; and
 - whether an absolute monetary cap should also be imposed for the de minimis exemptions, irrespective of the percentage threshold for the de minimis exemptions.

Comments received

51. An overwhelming majority of respondents supported the proposed increase in percentage thresholds for the de minimis exemptions. Most of them considered that a percentage threshold is sufficient to assess whether a connected transaction is eligible for the de minimis exemptions, and a monetary cap would be impractical and unnecessary. They concurred with the reasons given in the consultation paper and the need to strike a proper balance between shareholder protection and compliance burden. Materiality should be assessed as a percentage of the issuers' financial figures and this is in line with international practices.

52. Three respondents disagreed with the proposed percentage thresholds. Two of them considered that a stringent approach should be adopted in regulating connected transactions for investor protection, and the existing percentage thresholds (i.e. 0.1% and 2.5%) should be maintained. The other respondent stated that it supported the proposal to raise both percentage thresholds, but the question of what would be the appropriate threshold would depend on the outcome of other issues raised in the consultation paper.
53. Five respondents considered that a monetary cap should be imposed (four of them supported an increase in the percentage thresholds while one did not). Since the minimis threshold is expressed as a percentage, the monetary value of an exempted connected transaction can be significant for a large company, and there should be a monetary cap to protect the interests of minority shareholders. Amongst these respondents, three suggested a monetary cap of HK\$100 million for fully exempted connected transactions and one suggested a monetary cap of HK\$500 million.
54. We had further discussions with some respondents who were in favour of a monetary cap. They pointed out that shareholders are concerned about the monetary value of connected transactions. They considered that materiality should also be assessed from the perspective of individual shareholders. Nevertheless, they acknowledged the difficulty in setting the monetary cap. While the suggested monetary cap was “arbitrary”, they believed that the cap would provide a certain safeguard against abusive connected transactions. There was a concern that connected transactions that were significant from the shareholders’ perspective would no longer be disclosed to the market because of the relaxation of the percentage thresholds.

Our response

55. We note the view taken by some respondents that a monetary cap would be necessary to safeguard against abusive connected transactions in light of the proposed increase in percentage thresholds. However, we will not adopt a monetary cap because:
- There are significant difficulties in setting a fair and effective monetary cap for all listed issuers. The suggested monetary caps were artificially fixed and would treat materiality differently for different issuers, depending on their size.
 - Given the range in size of listed issuers, a fixed dollar cap would penalize large issuers and provide a more relaxed regulatory regime for smaller issuers.

- As at 31 December 2009, there were 1,324 issuers listed on the Exchange and the market capitalisation of these companies varied significantly. If we take the lower of the suggested monetary cap of HK\$100 million and the percentage threshold of 1% for fully exempted connected transactions, about 248 issuers would be limited by the monetary cap, among which 42 issuers would be adversely affected as the monetary cap is less than the current percentage threshold of 0.1%.
 - If we take monetary cap of HK\$500 million, about 85 issuers would be limited by the monetary cap, among which 10 issuers would be adversely affected compared to the current Rules.
 - About 621 issuers (47%) have a market capitalisation of less than HK\$1 billion and 1% of their market capitalisation is less than HK\$10 million. About 980 issuers (74%) have a market capitalisation of less than HK\$5 billion and 1% of their market capitalisation is less than HK\$50 million. Therefore, setting the monetary cap at HK\$100 million is not meaningful for these issuers.
 - The de minimis exemptions are meant to provide relief from the compliance burden where the size of a connected transaction is immaterial to the issuer. We stated in the consultation paper our view that materiality should be assessed as a percentage of the issuer's financial figures and the same percentage materiality test should be used for all issuers. This treats issuers fairly regardless of their size and is supported by the market.
56. Respondents who support a monetary cap appear particularly concerned that under the proposal, connected transactions that are significant from the shareholders' perspective but below the proposed higher thresholds might no longer be disclosed. Disclosure informs shareholders about, and allows them to assess, the transaction.
57. To address the respondents' concern, we propose to:
- retain the percentage threshold of 0.1% for fully exempted transactions with connected persons who have more direct and significant influence over the issuer and may be in positions to make decisions. This includes all directors and substantial shareholders (and their associates) of the issuer.
 - revise the threshold from 0.1% to 1% for fully exempted transactions with connected persons who in our views have relatively less significant influence over the issuer. This includes directors and substantial shareholders (and their associates) of the subsidiaries of the issuer.
 - increase the threshold from 2.5% to 5% for exemption from the shareholder approval requirement as set out in the consultation paper.

58. The proposal applies more stringent disclosure requirement to connected persons who can exert significant influence over the issuer. Connected persons at the issuer level generally present a higher risk of potential abuse than those at the subsidiary level. This view was supported by a majority of respondents to consultation question 1.
59. The proposed threshold of 5% for exemption from the shareholder approval requirement would be in line with other jurisdictions. Issuers would still need to disclose the transactions and the views of their independent non-executive directors on the transactions.
60. In light of the rationale for the proposal and the positive market response, we will proceed with the proposal with the modifications described in paragraph 57.

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

(1) Whether the connected transaction Rules should govern revenue transactions with connected persons (Consultation Question 12)

61. Views had been expressed that our regulation of connected transactions of a revenue nature is out of line with international norms and we should consider relaxing the requirements governing these transactions. Nevertheless, we considered it inappropriate to introduce a general exemption for revenue transactions with connected persons. Hong Kong has a high proportion of majority controlled listed companies and state-controlled PRC issuers. The connected person's dominant control over the issuer makes it easy for connected transactions to take place, including revenue transactions with other business interests of the connected person. In the absence of separation of owners from managers, there are less checks and balances to safeguard against connected persons taking advantage of their positions.
62. We sought market views on whether the connected transaction Rules should govern revenue transactions with connected persons.

Comments received

63. The responses to this issue were diverse.
64. A slight majority of the respondents considered that the connected transaction Rules should not govern revenue transactions with connected persons. Their reasons were that
- revenue transactions conducted at arm's length in the ordinary and usual course of business should be exempt from connected transaction rules; and

- regulation of revenue transactions with connected persons is not in line with international norms and imposes significant administrative burdens on issuers.
65. Respondents who supported regulation of revenue transactions with connected persons expressed views that were broadly in line with those in the consultation paper. Two qualified their opinion and suggested the connected transaction Rules should govern transactions with connected persons only at the listed company level but not at the subsidiary level.

Our response

66. We explained in the consultation paper that it is inappropriate to introduce a general exemption for revenue transactions with connected persons in our market. While the market views on this issue were diverse, our position was supported by a substantial number of respondents.
67. We have decided that the connected transaction Rules will continue to govern revenue transactions with connected persons. Nevertheless, we acknowledge there may be areas of refinement in terms of governing ongoing connected transactions of revenue nature, and in terms of further identifying areas where revenue transactions may be exempt from the connected transaction Rules. We will continue to review this area in the next phase of our review of the Rules.

(2) Proposed exemption for revenue transactions with associates of a passive investor (Consultation Questions 13 to 16)

68. We proposed to introduce an exemption from the connected transaction requirements in the following circumstance:
- (a) the connected transaction is of a revenue nature in the issuer's ordinary and usual course of business and is entered into on normal commercial terms;
 - (b) the transaction is a connected transaction only because it involves an associate (**relevant associate**) of a substantial shareholder of the issuer or any of its subsidiaries. Given the substantial shareholder is a passive investor, it is not expected to conduct transactions with the issuer directly; and
 - (c) the substantial shareholder is a passive investor in the issuer and meets the following criteria:
 - (i) it is a sovereign fund, or a unit trust or mutual fund authorised by the SFC or an appropriate overseas authority;

- (ii) it has a wide spread of investments other than securities of the issuer (or any of its subsidiaries) and the relevant associate;
- (iii) it and the relevant associate are connected persons only because it is a substantial shareholder of the issuer or any of its subsidiaries;
- (iv) it is not a controlling shareholder of the issuer or any of its subsidiaries;
- (v) it does not have any representative on the board of directors of the issuer or any of its subsidiaries, and is not involved in the management of the issuer group; and
- (vi) it is independent of the directors, chief executive, controlling shareholder(s) and any other substantial shareholder(s) of the issuer or any of its subsidiaries.

The issuer must comply with the connected transaction requirements immediately upon it becoming aware that any transactions with the connected person no longer qualify for the exemption.

69. We also sought market views on whether the proposed exemption should require the substantial shareholder be a passive investor in the relevant associate as well.

Comments received

70. The proposed exemption was supported by an overwhelming majority of the respondents. Two respondents suggested extending the proposal to exempt non-revenue transactions.
71. Of the five respondents opposing the proposed exemption, three considered that the Rules should not govern revenue transactions with connected persons (see section C(1)) and one considered the proposed exemption should also apply to the passive investor itself. There was one respondent who commented that it would be difficult and costly to maintain proper records to ensure the criteria for the exemption are fulfilled.
72. While the respondents generally supported the proposed exemption, their views on certain proposed criteria to determine a passive investor were diverse. The majority view was to allow further relaxation in the criteria.

Scope of investors (condition (c)(i) in paragraph 68)

73. A majority of the respondents considered that the exemption should not be restricted to sovereign funds and authorised mutual funds or unit trusts:
- A number of respondents suggested extending the exemption to private equity funds. Other suggestions include government and institutional investors, asset management arms of financial institutions or insurance companies, and collective investment schemes.
 - Some respondents suggested that the exemption should be available to any investors that can meet other proposed conditions (i.e. conditions (c)(ii) to (vi) in paragraph 68).
 - One respondent commented that a passive investor should not be categorised based on its legal structure or type, but the level of its participation and involvement in the management of, and potential influence on, the listed group.
74. A number of respondents disagreed with the extension of the exemption to investors other than those set out in the proposed Rule. One respondent stated that it had reservation on extending the exemption to private equity funds which generally have influence over the actions of issuers and are not passive investors. Another respondent pointed out that it would be difficult to assess the passivity of investors who are individuals.
75. In our soft consultation with some respondents and professionals in the asset management industry, the participants noted that the proposed scope of investors was restrictive. However, they generally agreed that it would be difficult to define whether an investor is “passive” as it would depend on the investor’s own investment mandate. Most participants pointed out that it is unlikely for private equity funds to be passive investors given their influence and active involvement in their investments, although there are exceptions. Some participants commented that it would be easy for entities to set up funds or investment arms, and relaxing the scope of investors might result in abuse of the exemption. Some suggested adopting a principle-based approach for assessing the passivity of portfolio investors instead of specifying the types of investors that the exemption would apply to.

Board representatives (condition (c)(v) in paragraph 68)

76. A majority of the respondents agreed that a passive investor must not have representation on the board of the issuer and its subsidiaries. A number of respondents considered that a board representation would allow the investor to exert some influence over the issuer group’s management.

77. In the soft consultation with some professionals in the asset management industry, the participants generally considered that an investor would not be regarded as passive if it has a board representation.
78. Of the opposing respondents, some pointed out that it would be unlikely that the investor would not seek a board seat to protect its interest in the issuer or the subsidiary in light of the size of its investment. Board representation should not preclude the application of the proposed exemption as the Rules require directors to abstain from voting on matters in which they have a material interest. An investor with board representation may not necessarily control the board of the issuer or the subsidiary or be able to influence its management.
79. Other comments include that a passive investor should be allowed to nominate non-executive directors of the issuer; and that a passive investor should be restricted from having board representation at the issuer level but not at the subsidiary level.

Other conditions

80. A majority of the respondents agreed with other proposed conditions for the exemption.
81. A number of respondents disagreed with the proposal only because they believe there should be a blanket exemption of revenue transactions with connected persons. Some opposing respondents commented that the conditions are too restrictive.
82. We also received other comments on the proposed conditions:
 - There should be greater clarity on how to determine whether an investor has a “wide spread” of investments.
 - There was a question whether an investor would be considered to be involved in the issuer group’s management if it had veto rights on certain substantive matters of the issuer group. Some considered that a passive investor should not have influence on the issuer’s management by way of negative control, or a right to appoint individuals to senior management positions of the issuer group, or a right to veto such appointments.
 - A respondent considered that a passive investor should be allowed to be a controlling shareholder or involved in the management at the subsidiary level.

Whether the passive investor should also be “passive” with respect to its associate that enters into a transaction with the issuer

83. The respondents had diverse views on whether the passive investor should also be passive with respect to its associate that enters into a transaction with the issuer.
84. A slight majority of respondents gave a positive response. Some stated that this would provide an additional safeguard against the connected person from taking advantage of its position. Upon clarification with these respondents, some explained the additional safeguard would be required if the criteria for passive investors are relaxed.
85. Of the dissenting views, some commented that, for protection of minority interests, it should be sufficient for the substantial shareholder to be a passive investor in the issuer group. Other respondents considered this further restriction unnecessary as the proposed exemption is already restrictive and the risk of influence by the connected person is low.
86. In our soft consultation with some professionals in the asset management industry, the participants generally agreed that it would be sufficient for the substantial shareholder to be a passive investor in the issuer group.

Our response

87. The purpose of the proposed exemption for a “passive investor” is to lessen the issuers’ compliance burden in circumstances where the potential for a substantial shareholder to abuse its position is small. We believe that the criteria for this exemption should be restrictive.
88. We note some respondents’ suggestion to extend the exemption to certain other types of investors, but there was no clear consensus or strong support for any particular types of investors that the exemption should generally apply to. Since it would be difficult to define a “passive investor”, we are concerned about the possible abuse of the exemption if the restriction on the scope of investors is relaxed or removed from the Rule. Substantial shareholders would be able to structure their shareholdings in listed issuers through funds or investment vehicles to benefit from the passive investor exemption.
89. While we consider it necessary to confine the exemption to specific types of investors to avoid possible abuse, some other portfolio investors may also be “passive investors” in their investments depending on their own investment mandates. We may consider granting waivers to allow the exemption be applied to other portfolio investors based on the specific circumstances of individual cases.

90. Some respondents questioned whether there would be any definition or standard for “a wide spread of investments” (condition (c)(ii) in paragraph 68). We believe that this would depend on the circumstances of individual cases and we may refer to other regulations and guidelines for the funds industry.
91. We consider that the proposed restriction on board representation and other conditions for the exemption are reasonable given the general market support.
92. We disagree with some respondents’ suggestions that a passive investor should be allowed to have a controlling interest and/or board representation at the subsidiary level, or be involved in the subsidiary’s management.
93. Some respondents commented that an investor may be able to influence the issuer’s management through negative control (e.g. its veto rights) on material matters of the issuer group, or its rights to appoint individuals to the board of directors or senior management of the issuer group. We have modified condition (c)(v) of the proposal to require that a passive investor should not have significant influence over the issuer’s management through negative control (e.g. its veto rights) on material matters of the issuer group.
94. In view of the rationale for the exemption, we agree that it would be sufficient for the substantial shareholder to be a passive investor in the issuer group. The exemption would not require the substantial shareholder to demonstrate its passivity in respect of its associates that enter into transactions with the issuer group.
95. In light of the above and the majority market support, we will proceed with the proposed exemption with the modifications set out in paragraph 93.

(3) Proposed modification of the exemption for provision of consumer goods or consumer services (Consultation Questions 17 and 18)

96. We proposed to amend Rule 14A.31(7)(b) to expand the exemption for provision of consumer goods or consumer services. Under the proposal, an issuer would be allowed to acquire consumer goods or services from connected persons for the purpose of or in connection with the issuer’s business if there is an open market and transparency in pricing the goods or services concerned.

Comments received

97. All except one respondent supported the proposal.

Our response

98. We will proceed with the proposal in light of the market support.

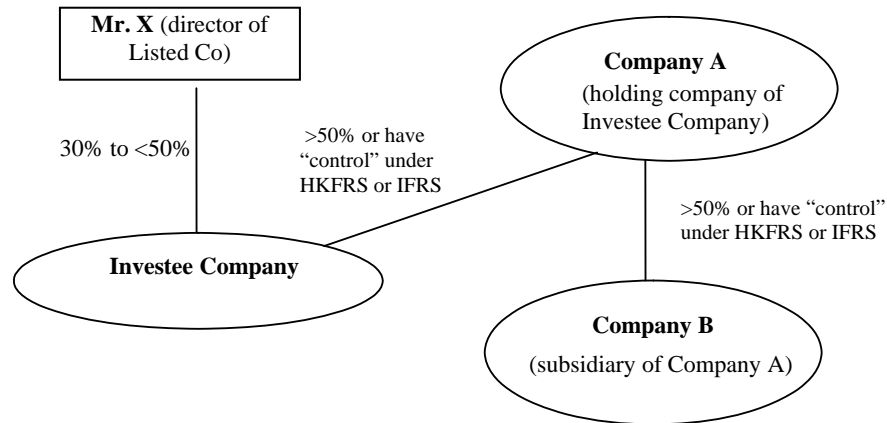
D. Definition of associate

(1) Definition of associate in Rule 1.01 (for non-PRC issuers) and Rule 19A.04 (for PRC issuers) (Consultation Questions 20 and 21)

99. Under the current Rules, a connected person's associates include an investee company¹ of this person. The definition of associate further extends to entities related to the investee company, which include:

- (a) The holding company of an investee company, or a fellow subsidiary of this holding company.

For example, Companies A and B in the following diagram are associates of Mr. X:

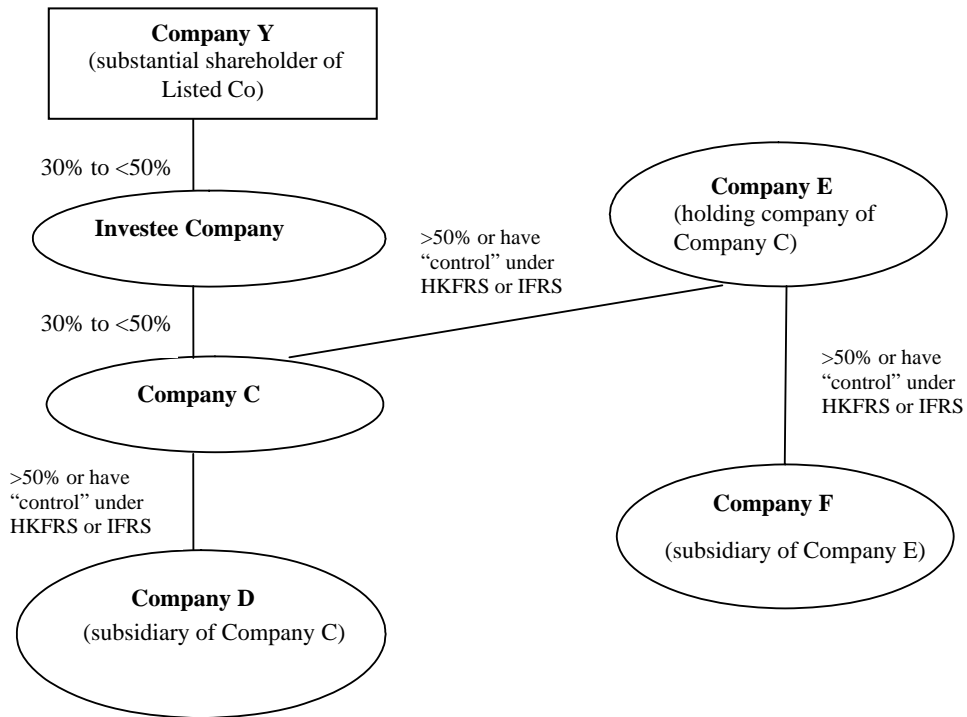


Note: "HKFRS" means Hong Kong Financial Reporting Standards
"IFRS" means International Financial Reporting Standards

- (b) A company controlled by the investee company (not being a subsidiary of the investee company) (e.g. a company in which the investee company is a 30% shareholder), and its subsidiary, holding company or fellow subsidiary.

For example, Companies C, D, E and F in the following diagram are associates of Company Y:

¹ An investee company includes a company over which a connected person (e.g. a director or substantial shareholder of the issuer) and/or any party closely related to this connected person (e.g. his spouse or, if the connected person is a company, its subsidiary or holding company), individually or together, has control. An example is a company where the connected person is a 30% shareholder or is able to control the composition of a majority of the company's board of directors.



100. We proposed to amend Rules 1.01 and 19A.04 to revise the definition of “associate” to exclude the entities described in paragraphs 99(a) and (b).

Comments received

101. All except two respondents supported the proposal.

Our response

102. In light of the market support and the reasons for the proposal, we will proceed with the Rule amendments.

(2) Extended definition of associate in Rule 14A.11(4) (Consultation Questions 22 and 23)

103. For the purpose of the connected transaction Rules, the definition of associate is extended by Rule 14A.11(4). In particular, Rules 14A.11(4)(b) and (c) provide that an “associate” of a connected person includes the following persons:

- close relatives of the connected person (including any person cohabiting as a spouse with, and any child, step-child, parent, step-parent, brother, sister, step-brother and step-sister of the connected person); and

- other relatives of the connected person (including a father-in-law, mother-in-law, son-in-law, daughter-in-law, grandparent, grandchild, uncle, aunt, cousin, brother-in-law, sister-in-law, nephew and niece of the connected person) whose association with the connected person is such that, in the opinion of the Exchange, the proposed transaction should be subject to the requirements of Chapter 14A.

The issuer must notify the Exchange of any proposed transaction with these relatives (unless the transaction is fully exempt under other rules) and provide information to the Exchange to demonstrate whether these parties should be deemed as associates of the connected person.

104. We proposed to expand the scope of associate in each of Rules 14A.11(4)(b) and (c) to a company in which any relative referred to in the rules has a majority control (i.e. a control of more than 50% of the voting power at this company's general meetings or the composition of a majority of the board of directors of this company).

Comments received

105. A majority of the respondents supported the proposal.
106. Most opposing respondents considered that the current definition of associate is wide enough and the proposal would make the Rules more burdensome. A respondent commented that the proposal would be unnecessary as the Exchange already has the power to deem a person to be connected under the current Rules.
107. There is also a question on whether the proposed Rule would require aggregation of interests of two or more relatives in the same company.

Our response

108. Under the current Rules, the definition of associate already covers a connected person's relatives. Close relatives (e.g. child, parent, sibling) are defined as associates of connected persons while other relatives (e.g. in-law, nephew, cousin) are deemed to be associates if they are closely associated with the connected persons in the opinion of the Exchange. In the latter case the issuer must notify the Exchange who will make a determination. Our proposal will extend the definition to companies that are majority controlled by the relatives in each of the scenarios described above. This is intended to address the potential loophole where the connected person may take advantage in a transaction between the issuer and a company under the control of his relatives.
109. Some respondents commented that the proposal is unnecessary given the deeming provisions in the current Rules. This is not true because the current Rules do not explicitly require the issuer to notify the Exchange when it conducts transactions

with a company controlled by relatives of its connected persons. The Exchange cannot exercise the deeming power unless it is aware of the transactions. The proposed Rule amendment would clarify the requirements.

110. We note some comments against the proposal because in their view, relatives of connected persons may not have close associations with the connected persons or any influence on the issuer's group. The proposal clarifies that the connected transaction Rules apply to relatives of connected persons and companies they control. It does not extend the current requirement for relatives, which is that the Exchange would consider whether to deem distant relatives as connected persons based on the circumstances on individual cases.
111. We have modified the proposal to clarify that we will consider the interests of the connected person and his relatives in a company to determine whether they together have a majority control over the company. The issuer must provide information to the Exchange on whether or not the company is majority controlled by these persons.
112. In light of the market support and the reasons for the proposal, we will proceed with the Rule amendment with modification set out in paragraph 111.

E. Definition of connected person

- (1) Non wholly-owned subsidiary (Consultation Questions 24 to 27)**
- (2) Promoter of a PRC issuer (Consultation Questions 28 and 29)**
- (3) PRC Governmental Body (Consultation Questions 30 and 31)**
- (4) Management shareholder of a GEM issuer (Consultation Questions 32 and 33)**

113. We proposed the following changes to the definition of connected person:

- (1) for a non-wholly owned subsidiary,
 - (a) to introduce an exemption for transactions between a "connected subsidiary" (as defined in Rule 14A.11(5)²) and its own subsidiaries, or between subsidiaries of this connected subsidiary.
 - (b) to amend Rule 14A.11 to specify that a non wholly-owned subsidiary would not be regarded as a connected person because it is (i) a substantial shareholder of another subsidiary of the issuer; or

² Under Rule 14A.11(5), a connected person includes any non-wholly owned subsidiary of an issuer where any connected person(s) of the issuer (other than at 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.

(ii) the non wholly-owned subsidiary is an associate of a director, chief executive or substantial shareholder of any subsidiary of the issuer.

- (2) to remove “promoter” from the definition of connected person for PRC issuers;
- (3) to exclude “PRC Governmental Body” from the scope of connected persons for non-PRC issuers (the current exemption only applies to PRC issuers); and
- (4) to remove “management shareholder” from the definition of connected person in the GEM Rules.

Comments received

- 114. All respondents supported proposals (1), (2) and (3).
- 115. We also received support from an overwhelming majority of respondents on proposal (4). Of the opposing respondents, one commented that the management shareholder is able to direct or influence the management of the issuer and should be retained in the definition of connected person in the GEM Rules.

Our response

- 116. Since the repositioning of the GEM Board as a second board in 2008, some requirements for management shareholders were removed as they were no longer necessary. The proposal to remove management shareholder from the definition of connected person in the GEM Rules is to bring them in line with the Main Board Rules. We consider the proposal reasonable and appropriate and this is well-received by the respondents.
- 117. In light of the market support and the reasons for the proposals, we will proceed with the Rule amendments.

F. Other changes to the connected transaction Rules

(1) Exemption for small transaction involving issue of new securities by subsidiary (Consultation Questions 34 and 35)

- 118. Under current Rules 14A.31(2) and 14A.32, the de minimis exemptions do not apply to the issue of new securities by an issuer (which by the definition under Rule 14A.10(6) includes its subsidiary) to a connected person. We proposed to remove the restriction on applying the de minimis exemptions to an issue of securities by the issuer’s subsidiary (i.e. deemed disposal).

Comments received

119. All except one respondent supported the proposal. The opposing respondent considered it appropriate to retain the requirements for deemed disposals of interests in an issuer's subsidiaries as they involve changes in the capital structure of the issuer group. There was a concern about possible abuse of the relaxation.

Our response

120. We stated in the consultation paper that the proposal would treat deemed disposals in the same way as any outright disposals of an issuer's interests in its subsidiaries. The current exclusion of issuances of securities from the exemption in the Rules is meant to protect against dilution of shareholders' interest in the listed securities. There is no such concern at the subsidiary level.
121. In light of the market support, we will proceed with the Rule amendments.

(2) Exemption for financial assistance provided on a pro-rata basis (Consultation Questions 36 and 37)

122. Financial assistance given by an issuer to a connected person or a "commonly held entity"³ is a connected transaction.
123. We proposed to amend Rule 14A.65(3)(b)(i) to clarify that financial assistance provided by an issuer to a company (which is a connected person) in proportion to the issuer's interest in that company would be exempt from the connected transaction requirements. Currently, the exemption only applies to a "commonly held entity" which is not a connected person.

Comments received

124. All respondents supported the proposal.
125. A respondent noted that the proposal would extend the exemption to financial assistance given to a "commonly held entity" which is also a connected person. It was unclear whether the proposed exemption would also apply to financial assistance given to a connected person in which the issuer is a shareholder, even though it is not a "commonly held entity".

³ A "commonly held entity" refers to a company in which both the issuer (or its subsidiary) and a connected person are shareholders, and where any connected person(s) (at the listed company level) can control 10% or more of the voting power at any general meeting of the company.

Our response

126. In light of the market support, we will proceed with the proposal. The exemption will apply to financial assistance given by an issuer for the benefit of (i) a “commonly held entity”, or (ii) a connected person in which the issuer is a shareholder, as long as the financial assistance being provided is on normal commercial terms and on a several and pro-rata basis.

(3) Transactions with third parties involving joint investments with connected persons (Consultation Questions 38 and 39)

127. Under the current Rules, a connected transaction includes a transaction between an issuer and a person who is not a connected person, where the transaction involves the issuer acquiring or disposing of an interest in a company where a substantial shareholder of that company is or is proposed to be, a controller⁴ or is (or will become as a result of the transaction) an associate of a controller. There is an exemption for an acquisition where the substantial shareholder of the target company will become a controller only because of its position and/or shareholding in that target company.
128. We proposed to introduce a similar exemption for a disposal where a substantial shareholder of the disposal target is a controller only because of its position and/or shareholding in the disposal target immediately prior to the disposal.

Comments received

129. All except one respondent supported the proposal. The opposing respondent commented that in a disposal, the substantial shareholder of the disposal target already has had an established relationship with the issuer group for some time. Its potential influence over the issuer group and the disposal target would be higher than those of a substantial shareholder of a company to be acquired by the issuer in the case of an acquisition.
130. A respondent suggested that the proposed exemption should not apply to a disposal where the substantial shareholder of the disposal target, being a controller, is also selling its interests in the target.

⁴ A controller means a director, chief executive or controlling shareholder of the issuer or any of its subsidiaries.

Our response

131. The proposal relates to an issuer selling its interest in a subsidiary to a third party, where the subsidiary has a substantial shareholder that is a controller (and therefore a connected person) only because of its relationship with the subsidiary. Although the subsidiary's corporate structure includes a connected person (i.e. the substantial shareholder), it has no involvement in the transaction. The risk that this substantial shareholder can exert significant influence over the issuer or the third party is remote. We consider that the proposal is appropriate.
132. We agree with the respondent's comment that the exemption should not apply if the disposing company's substantial shareholder is also selling its interests in the disposal target. There would be a concern about the substantial shareholder taking advantage of its position to influence the issuer's transaction in a way to obtain a benefit through its own transaction. We have therefore modified the proposed exemption to require that there must be no change in the substantial shareholder's interest in the disposal target as a result of the issuer's disposal or other transaction or arrangement related to the disposal. This is also consistent with the current exemption for acquisition transactions.

(4) Annual review of continuing connected transactions (Consultation Questions 40 and 41)

133. We proposed to clarify that the annual review requirements under Rules 14A.37 and 14A.38 would apply to continuing connected transactions that are subject to reporting and disclosure requirements in Chapter 14A.

Comments received

134. All except two respondents supported the proposal. The opposing respondents considered that all connected transactions including the fully exempted transactions should be subject to the annual review requirements.

Our response

135. We do not consider it appropriate to extend the annual review requirements to fully exempted continuing connected transactions as it would unduly increase issuers' compliance burden on transactions where the risk of potential abuse is low.
136. In light of the market support, we will proceed with the proposal.

OTHER COMMENTS

137. We also received other valuable comments on various aspects of the connected transaction Rules from the respondents. We will take account of these comments in the next phase of our review of the connected transaction Rules.

FURTHER REVIEW OF THE CONNECTED TRANSACTION RULES

138. In this consultation, we have reviewed some specific connected transaction requirements that are burdensome, restrictive or have unintended effects. After taking into account the proposed changes, we will continue to have one of the strictest regimes in developed markets on connected transactions. It is important to ensure our Rules meet their purpose and intent in a balanced and cost-effective manner.
139. As part of our continuing initiatives to enhance the effectiveness of our Rules in the regulation of connected transactions, we will conduct further review of the connected transaction Rules. It is intended to cover the following areas:

- (a) Revising the definition of connected person

A key concern about connected transactions is that connected persons may take advantage of their positions through transactions with the issuer and its subsidiaries at the cost of minority shareholders. Connected persons at the issuer level generally present a higher risk of potential abuse than those at the subsidiary level.

We will consider whether the definition of connected person at the issuer level is sufficiently broad to cover the kinds of persons that can exert significant influence over an issuer's actions and affect the minority shareholders' interests. For example, directors of the parent company of a listed company are connected persons in some other jurisdictions but not in our Rules.

On the other hand, the responses to this consultation indicated a strong support for relaxing the requirements on transactions with persons connected at the subsidiary level. We will consider relaxing the definition of connected person at the subsidiary level. One consideration would be to apply a different definition of connected person to persons connected at the subsidiary level. For example, we may consider increasing the threshold for a connected person's shareholding in a subsidiary from 10% (i.e. a substantial shareholder) to 30% (i.e. controlling shareholder).

- (b) Improving our regulation of revenue transactions with connected persons

There are market comments that the current continuing connected transaction Rules have imposed significant administrative burden on issuers conducting revenue transactions in their ordinary and usual course of business. We will revisit the framework for regulating revenue transactions with connected persons, particularly the requirements on annual cap, written agreement and its duration, and size test calculations. We will also consider adopting a different set of de minimis thresholds for revenue transactions and introducing exemptions for particular categories of transactions.

- (c) Introducing specific requirements and/or exemptions for different categories of issuers

Hong Kong has a high proportion of majority-controlled companies, where transactions between issuers and their major shareholders can easily be made and pose a high risk of potential abuse. On the other hand, there are also some issuers with a diversified shareholding structure, and the nature and risk of their connected transactions are generally different from those issuers with concentrated ownership. Currently, the same set of connected transaction Rules applies to all issuers. We will consider adopting different approaches in regulating connected transactions of family-controlled issuers, state-owned issuers, and issuers with a diversified shareholding structure.

- (d) Bringing our connected transaction Rules and practices in a closer alignment with those in Mainland China and other overseas jurisdictions

This would increase market efficiency and reduce the compliance burden of Mainland incorporated issuers and international issuers listed in Hong Kong.

CONSULTATION CONCLUSIONS

140. 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.
141. We have also amended the GEM Rules in line with the changes to the Main Board Rules.

- End -

APPENDIX LIST OF RESPONDENTS

Listed issuers

1. Cathay Pacific Airways Limited
2. Cheung Kong (Holdings) Limited
3. Cheung Kong Infrastructure Holdings Limited
4. China Resources Enterprise, Limited
5. CK Life Sciences Int'l., (Holdings) Inc.
6. CLP Holdings Limited
7. Far East Holdings International Limited
8. Far East Hotels and Entertainment Limited
9. Great Eagle Holdings Limited
10. Hong Kong Aircraft Engineering Company Limited
11. HSBC Holdings plc
12. Hutchison Whampoa Limited
13. MTR Corporation Limited
14. Standard Chartered PLC
15. Swire Pacific Limited
16. The Bank of East Asia, Limited
17. The Hong Kong and China Gas Company Limited
18. to 50. 33 Main Board issuers (*name not disclosed at the respondents' request*)

Professional and industry associations

51. ACCA
52. The Chamber of Hong Kong Listed Companies
53. The Hong Kong Institute of Certified Public Accountants
54. The Hong Kong Institute of Chartered Secretaries
55. The Hong Kong Institute of Directors
56. The Hong Kong Society Financial Analysts
57. The Law Society of Hong Kong

Market practitioners

58. Baker & McKenzie LLP
59. *Charltons on behalf of:*
 - Access Capital Limited
 - Anglo Chinese Corporate Finance, Limited
 - CIMB Securities (HK) Ltd.
 - Quam Limited
 - Somerley Limited

60. Clifford Chance
61. Ernst & Young
62. JSM
63. Latham & Watkins
64. Linklaters
65. P.C. Woo & Co.
66. SBI E2-Capital (HK) Limited
67. Slaughter and May

Individuals and retail investor representatives

68. Suen Chi Wai
69. to 70. 2 individual investors (*name not disclosed at the respondents' request*)

