

## Part B Consultation Questions

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

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

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

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

Yes

No

Please provide reasons for your views.

*We believe the key concern about connected transactions is that connected persons may take advantage of their positions through transactions with the issuer or its subsidiaries at the cost of its minority shareholders.*

*For the directors or substantial shareholders of the issuer's subsidiary, theirs/its influence in the issuer group is very minor. Actually as to our company, they don't have any influence in our company. When the definition of connected person includes persons connected by virtue of their relationship with our company's subsidiaries, the administration cost is raised without any more increase of the minority shareholders' benefit.*

*Thus we believe the exclusion of persons connected only by virtue of their relationship with our company's subsidiaries would save the administration cost and would not decrease any protection for our minority shareholders.*

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

Yes

No

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

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

Yes

No

Please provide reasons for your views.

***We believe the best choice is to exclude all persons from the subsidiaries level. If this is not practical at present, the alternative way is to loosen the regulation on it, which means only significant subsidiaries would be regulated under the Listing Rules, to decrease the unnecessary administration cost of issuers.***

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

Yes

No

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

***We have subsidiaries which may represent less than 10% of the three years’ financial figures, which belong to the circumstances described in option 2. It is benefit for the saving of our administration cost and for the benefit of all our shareholders to exclude them from connected persons.***

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

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

Yes (please choose one of the following options)

Option 1

Option 2

No

Please provide reasons for your views.

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

Yes

No. The significance of a subsidiary should be determined by (*please specify*): \_\_\_\_\_

Please provide reasons for your views.

***We believe the asset ratio is enough for the assessing of significance of a subsidiary. It is not necessary to also include our ratio.***

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

Yes

No

Please provide reasons for your views.

***It is not necessary to add such additional safeguard, because such subsidiary almost does not have any influence on issuer. The interest of minority shareholders is safe enough without such safeguard.***

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

Yes

No

Please provide reasons for your views.

***Even connect transactions are continuing, the influence of subsidiaries can not be increased. Thus the proposed mechanism could be applied to continuing connected transactions.***

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

Yes

No

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

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

Yes

No

Please provide reasons for your views.

*In view of the influence power of insignificant subsidiaries is limited and minor, it is not necessary to regulate the winding-up or liquidation of them.*

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

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

Yes

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

Please provide reasons for your views.

*2.5% provided at present is too low. Transactions with low amount are normally fair and unnecessary to get the approval of independent shareholders’ approval.*

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

Yes

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

Please provide reasons for your views.

***0.1% provided at present is too low. Transactions with low amount are normally fair and unnecessary to go through the above process, which raise the company's administration cost.***

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

Yes

No

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

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

Yes

No

Please provide reasons for your views.

***It is enough. Any other aspects would only increase the administration cost and would not be any good for the interest of shareholders.***

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

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

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

No

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

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

Yes

No

Please provide reasons for your views.

***Revenue transactions are in the ordinary and usual course of a company's business, and company will take good care of its interest. Also such transactions are of high frequency. It may lower the operational efficiency of a company if there would be regulations on such transactions.***

Proposed exemption for revenue transactions with associates of a passive investor

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

Yes

No

Please provide reasons for your views.

*The best way is to give exemption to all the revenue transactions.*

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

Yes

No

Please provide reasons for your views.

*The best way is to give exemption to all the revenue transactions.*

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

Yes

No

Please provide reasons for your views.

*The best way is to give exemption to all the revenue transactions.*

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

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

No

Please provide reasons for your views.

*The best way is to give exemption to all the revenue transactions.*

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

Yes

No

Please provide reasons for your views.

*The best way is to give exemption to all the revenue transactions.*

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

Yes

No

Please provide reasons for your views.

*The best way is to give exemption to all the revenue transactions.*



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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

***When there is an open market and transparency in pricing the goods or service, the transactions would easy for the public to judge whether it is for the interest of the minority shareholders. Thus it is impossible for the company to harm their interest.***

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

Yes

No

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

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

Yes

No

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

*The best way is to give exemption to all the revenue transactions.*

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

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

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

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

Yes

No

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

Yes

No

Please provide reasons for your views.

*These entities are unnecessary to be included in the definition of associate. Their influence on the company group is very minor and limited.*

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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

*We can not see such person would have any influence on the issuer group.*

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

Yes

No

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

**E. Definition of connected person**

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

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

Yes

No

Please provide reasons for your views.

*The minority shareholders' interest is impossible to be affected in the transactions above.*

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

Yes

No

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

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

Yes

No

Please provide reasons for your views.

*The minority shareholders' interest is impossible to be affected in the transactions above.*

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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

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

Yes

No

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

**(3) PRC Governmental Body**

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

Yes

No

Please provide reasons for your views.

*It is impossible for transactions between an issuer and PRC Governmental Body to harm the interest of minority shareholders.*

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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

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

Yes

No

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

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

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

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

Yes

No

Please provide reasons for your views.

*a very small amount of issue of securities is of limited possibilities to harm the interest of minority shareholders.*

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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

*Under Rule 14A.65(3)(b)(i), the assistance being given is in proportion to the issuer's equity interest in the entity and any guarantees given by the issuer is on a several basis, will properly protect the interest of minority shareholders.*

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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

*Under such circumstance, the risk that the target company's substantial shareholder can exert significant influence over the issuer and the transaction with a third party is remote.*



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

Yes

No

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

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

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

Yes

No

Please provide reasons for your views.

*It settled the puzzle of issuer about the scope of connected transactions to be reviewed. Also the connected transactions exempt from reporting, disclosure and independent shareholders’ approval requirements is of minor significance to the minority shareholders and is unnecessary to be reviewed.*

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

Yes

No

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

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

Yes

No

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

***Definition of associate and connected transaction shall be modified to exclude the transactions by listed issuers being PRC state-owned entities with their parent companies and respective associates which together with the related listed issuers are in fact also PRC state-owned assets. The existing unnecessary burdensomeness and unintended effects on the operations of state-owned entities may have overwhelmed the original purpose of the protection nest under chapter 14A.***

- End -