Frequently Asked Questions Series 10 (Released on 20 May 2010/ Last Updated on 1 July 2014)

Amendments to Connected Transaction Rules (effective 3 June 2010)

Status of "Frequently Asked Questions"

The following frequently asked questions (FAQs) are designed to help issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our "answers", we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Division may be consulted on a confidential basis. Contact the Listing Division at the earliest opportunity with any queries.

No.	Main Board Rules	GEM Rules	Query	Response
	<u>Insignificant subsidiary exemption</u>			
1.	14A.09	20.08	An issuer has completed a placing of new shares. When it assesses whether a subsidiary is "insignificant" under this Rule, does it need to adjust the assets ratio for the proceeds from the placing?	No. The issuer should use the total assets shown in its group's audited accounts for the financial year(s) set out in the Rule without adjustments. *Note: Rule reference updated in July 2014.*
2.	14A.09	20.08	An issuer acquired a majority interest in Company A a few months ago. When assessing whether Company A is an "insignificant subsidiary" under this Rule, can the issuer refer to Company A's total assets, profits and revenue for the period after the date of acquisition?	No. The assessment should be based on the latest financial year / three financial years described in the Rule, which may include Company A's financials before the date of acquisition. *Note: Rule reference updated in July 2014.*
3.	14A.09	20.08	An issuer has recently formed a joint venture with a third party. The joint venture is a non wholly-owned subsidiary of the issuer but it has yet to publish its first accounts. Can the issuer apply the	The exemption may apply to a newly established subsidiary even though it does not have a full year of accounts. The issuer may propose alterative size tests to assess the subsidiary's materiality.

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			insignificant subsidiary exemption? If yes, how will the percentage ratios be calculated?	In the circumstances described, it would normally be acceptable for the issuer to compute an alternative assets ratio based on its total capital commitment in the joint venture. The profits and revenue ratios would be inapplicable as the joint venture is newly set up. The issuer should consult the Exchange. *Note: Rule reference updated in July 2014.*
4.	14A.09	20.08	When assessing whether a subsidiary is "insignificant" under this Rule, can the issuer change from the three year test to the one year test (or vice versa) from time to time?	Yes. Both tests are meant to measure the materiality of a subsidiary. *Note: Rule reference updated in July 2014.*
5.	14A.09	20.08	Can the issuer apply the "anomalous test" if there are fluctuations in the subsidiary's results over the three years, for example due to exceptional performance in a particular year?	The "anomalous test" will not apply in the circumstances described. This is because the "anomalous test" addresses circumstances where a particular percentage ratio is out of line with the others or does not reflect the subsidiary's materiality. *Note: Rule reference updated in July 2014.*

No.	Main Board Rules	GEM Rules	Query	Response
5A.	14A.07(2), 14A.09	20.07(2), 20.08	A month ago, Listco sold its entire interest in its subsidiary, Company A. Mr. X is a connected person of Listco under Rule 14A.07(2) because of his directorship in Company A before the disposal. He has no other relationship with Listco group. Can Listco apply the insignificant subsidiary exemption to its proposed transactions with Mr. X?	Yes, if Company A was "insignificant" under Rule 14A.31(9) at the time when it ceased to be a subsidiary of Listco. *Notes:* *1. Added in 17 September 2010* *2. Rule reference updated in July 2014.*
	<u>Insignificant subsidiary exemption / passive investor exemption for continuing connected transactions</u>			
6.	14A.09, 14A.60, 14A.99, 14A.100	20.08, 20.58, 20.97, 20.98	Listco wishes to apply the "insignificant subsidiary exemption" (or the "passive investor exemption") to the following continuing connected transactions with Company X: (a) Listco proposes to purchase raw materials from Company X on a recurring basis. Company X currently meets the conditions for the	(a)(i) A framework agreement is not required if the purchases are exempt under the Rule. (a)(ii) No. The framework agreement is not an agreement with fixed terms. If Company X no longer meets the conditions for the exemption within the three year period, Listco must comply with all applicable connected transaction Rules for its

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			exemption. (i) Do they need to enter into a framework agreement for these purchases? (ii) If they now enter into a framework agreement for the purchases for say 3 years, does it mean that all purchases conducted under this agreement are exempt? (b) Listco also enters into an agreement with Company X to lease an office building with fixed terms for 3 years. If Company X no longer meets the conditions for the exemption after one year, will Listco need to comply with the connected transaction Rules?	subsequent purchases from Company X. (b) Listco is only required to comply with the reporting, annual review and announcement requirements immediately upon it becoming aware of this fact. *Note: Rule reference updated in July 2014.*
7.	14A.09	20.08	Listco has entered into an agreement to lease a property to Mr. X, a director of a Listco subsidiary, with fixed terms for 3 years. At the time of the lease agreement, the subsidiary is not	Listco may announce that it will apply the exemption to the lease after 1 year. Reporting and annual review of the lease will not be required as long as Mr. X meets the conditions for the exemption. If Mr. X no longer qualifies for the exemption, Listco must comply with the announcement,

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			"insignificant" and Mr. X does not meet the conditions for the exemption. Listco has complied with the applicable connected transaction requirements. If after 1 year, Mr. X meets the conditions for the exemption, is Listco still required to comply with the reporting and annual review requirements for the remaining term of the lease agreement?	reporting and annual review requirements for the remaining term of the lease. Alternatively, Listco may continue to comply with the reporting and annual review requirements for the lease in the next 2 years. If it does this, it will not be required to re-comply with the announcement requirement if Mr. X no longer qualifies for the exemption. *Notes:* 1. *Amended in September 2010.* 2. *Rule reference updated in July 2014.*
8.	**(FAQ withdrawn on 1 July 2014)**			
	<u>De minimis exemptions</u>			
9.	14A.76(1)(b)	20.74(1)(b)	Subsidiary A is 80% owned by Listco and 20% owned by a director of Listco. Does the new threshold of 1% under paragraph (b) of the Rule	No. Paragraph (b) of the Rule applies to transactions involving connected persons at the subsidiary level only. Subsidiary A does not qualify for the exemption because it is connected by virtue of Listco's director's 20%

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			apply to a transaction between Listco and Subsidiary A?	interest in it. *Note: Rule reference updated in July 2014.*
10.	**(FAQ withdrawn on 1 July 2014)**			
10A.	**(FAQ withdrawn on 1 July 2014)**			
	<u>Exemption for provision of consumer goods or consumer services</u>			
11.	14A.97(2)(b)	20.95(2)(b)	The new Rule allows an issuer to acquire consumer goods or services in connection with its business provided that there is an open market and transparency in the pricing of the goods or services. How does the issuer determine whether there is a "transparency in the pricing of the goods or services"?	It would depend on individual cases. For example, the price labels / price lists are on display at retail stores or the prices are published or publicly quoted. *Note: Rule reference updated in July 2014.*

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	<u>Extended definition of associate</u>			
12.	14A.12(2)(b)	20.10(2)(b)	Mr. X is a director of Listco. Company A is 20% owned by Mr. X and 40% owned by his son. Is a transaction between Listco and Company A a connected transaction?	Yes. Since Mr. X and his son together have a majority control over Company A, Company A is Mr. X's associate and the transaction is a connected transaction for Listco. *Note: Rule reference updated in July 2014.*
13.	14A.21, 14A.22	20.19, 20.20	Mr. X is a director of Listco. Mr. Y is the Mr. X's nephew. Company A is 20% owned by Mr. X and 40% owned by Mr. Y. Is a transaction between Listco and Company A a connected transaction?	Yes. Normally, the Exchange would aggregate the interests of Mr. X and Mr. Y in Company A and treat Company A as a connected person for the transaction. Listco should consult the Exchange. *Note: Rule reference updated in July 2014.*

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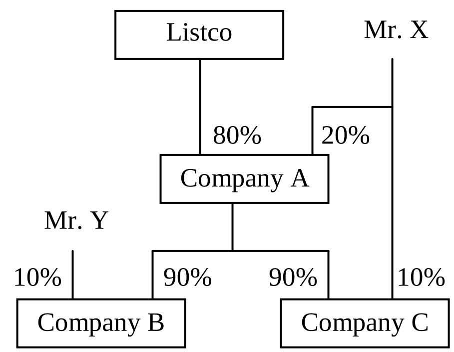
	<u>Non wholly-owned subsidiary</u>			
14.	14A.17	20.15	Companies A, B and C are non-wholly owned subsidiaries of Listco.  Mr. X is a director of Listco. Mr. Y is not a connected person at the Listco's level. Company A is a connected person of Listco because of Mr. X's substantial interest in it. Companies B and C, being subsidiaries of Company A, are also connected persons. Does the exemption under this Rule apply to:	(a) Yes, because Company B is a connected person only because it is a subsidiary of Company A. (b) No. Company C is a connected person because it is a subsidiary of Company A <u>AND</u> because Mr. X is a substantial shareholder in it. The transaction does not meet the conditions for the exemption. *Note: Rule reference updated in July 2014.*

No.	Main Board Rules	GEM Rules	Query	Response
			(a) a transaction between Company A and Company B; and (b) a transaction between Company A and Company C?	
	<u>Changes to the definitions of connected person and associates</u>			
14A.	**(FAQ withdrawn on 1 July 2014)**			
	<u>Transactions with third parties involving joint investments with connected persons</u>			
15.	**(FAQ withdrawn on 1 July 2014)**			