

Chapter 3

GENERAL

SPONSORS, AUTHORISED REPRESENTATIVE AND DIRECTORS

Sponsors

- 3.01 A new applicant, in the case of equity securities, must be sponsored by a member of the Exchange, issuing house, merchant bank or other similar person who is acceptable to the Exchange. A potential sponsor will not be considered acceptable by the Exchange if the Exchange does not consider that it will be able to give the new applicant impartial advice. The sponsor must be appointed by the new applicant for the purpose and must have agreed to observe the guidelines set out in the model code for sponsors issued by the Exchange (a copy of which is set out in Appendix 9).
- 3.02 The requirement to have a sponsor will end once the new applicant is listed although it is recommended that the listed issuer retain the services of its sponsor for at least one year following its listing.
- 3.03 The sponsor is responsible for preparing the new applicant for listing, for lodging the formal application for listing and all supporting documents with the Exchange and for dealing with the Exchange on all matters arising in connection with the application.
- 3.04 Particular importance is attached to the sponsor's role and the sponsor has a particular responsibility to satisfy himself, on all available information, that the listed issuer is suitable to be listed and, in the case of a corporate issuer, he must also satisfy himself that its directors appreciate the nature of their responsibilities and can be expected to honour their obligations under the Exchange Listing Rules and other applicable laws and provisions relating to securities and the Listing Agreement.

Authorised Representatives

- 3.05 Every listed issuer shall appoint two authorised representatives who shall act at all times as the listed issuer's principal channel of communication with the Exchange. The two authorised representatives must be either two directors or a director and the listed issuer's secretary unless the Exchange, in exceptional circumstances, agrees otherwise.
- 3.06 The responsibilities of an authorised representative will be as follows:—
- (1) at all times (particularly prior to commencement of trading in the morning) to be the principal channel of communication between the Exchange and the listed issuer and to supply the Exchange with details in writing of how he can be contacted including home and office telephone numbers and, where available, facsimile numbers;
 - (2) to ensure that whenever he is outside Hong Kong suitable alternates are appointed, available and known to the Exchange and to supply the Exchange with details in writing of how such alternates may be contacted including their home and office telephone numbers and, where available, facsimile numbers;
 - (3) the authorised representative should only terminate his role as authorised representative after first notifying the Exchange of such proposed termination and the reasons therefor; and

- (4) except in exceptional circumstances, the listed issuer should not terminate the role of an authorised representative until it has appointed a replacement. Where the authorised representative's role is terminated by the listed issuer, both the listed issuer and the former authorised representative should immediately notify the Exchange of such termination in each case stating the reason why such appointment was terminated and the listed issuer and the new authorised representative should immediately notify the Exchange of the new authorised representative's appointment.
- 3.07 If the Exchange is not satisfied that the authorised representative is fulfilling his responsibilities adequately, it may require the listed issuer to terminate his appointment and appoint a replacement as soon as possible. The listed issuer and the new authorised representative should immediately notify the Exchange of the new authorised representative's appointment.

Directors

- 3.08 The board of directors of a listed issuer is collectively responsible for the management and operations of the listed issuer. The Exchange expects the directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. This means that every director must, in the performance of his duties as a director:—
- (a) act honestly and in good faith in the interests of the company as a whole;
 - (b) act for proper purpose;
 - (c) be answerable to the listed issuer for the application or misapplication of its assets;
 - (d) avoid actual and potential conflicts of interest and duty;
 - (e) disclose fully and fairly his interests in contracts with the listed issuer; and
 - (f) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the listed issuer.
- 3.09 Every director of a listed issuer must satisfy the Exchange that he has the character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as a director of a listed issuer. The Exchange may request further information regarding the background, experience, other business interests or character of any director or proposed director of a listed issuer.
- 3.10 Subject to the transitional provisions in rule 3.195,

- (1) every board of directors of a listed issuer must include at least ~~two~~ three independent non-executive directors; and
- (2) at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise.

Note: With regard to "appropriate accounting or related financial management expertise", the Exchange would expect the person to have, through experience as a public accountant or auditor or as a chief financial officer, controller or principal accounting officer of a public company or through performance of similar functions, experience with internal controls and in preparing or auditing

comparable financial statements or experience reviewing or analysing audited financial statements of public companies. It is the responsibility of the board to determine on a case-by-case basis whether the candidate is suitable for the position. In making its decision, the board must evaluate the totality of the individual's education and experience.

3.11 A listed issuer shall immediately inform the Exchange and publish an announcement in the newspapers containing the relevant details and reasons if at any time the number of its independent non-executive directors falls below the minimum number required under rule 3.10(1) or at any time it has failed to meet the requirement set out in rule 3.10(2) regarding qualification of the independent non-executive directors. The listed issuer shall appoint a sufficient number of independent non-executive directors to meet the minimum number required under rule 3.10(1) or appoint an independent non-executive director to meet the requirement set out in rule 3.10(2) within three months after failing to meet the requirement(s).

3.12 In addition to fulfilling the requirements and continuing obligations of rules 3.08, ~~and 3.09~~ and 3.13, every independent non-executive director must satisfy the Exchange that he has the character, integrity, independence and experience to fulfil his role effectively. The Exchange may stipulate ~~for~~ a minimum number of independent non-executive directors which is higher than ~~two-three~~ if, in the opinion of the Exchange, the size of the board or other circumstances of the listed issuer justify it.

3.13 In assessing the independence of a non-executive director, the Exchange will take into account of the following matters factors, none of which is necessarily conclusive. Independence is more likely to be questioned if the director:—

(1) ~~the holding of a shareholding interest in the issuer of not holds~~ more than 1% of the total issued share capital of the listed issuer;

Notes: 1. A listed issuer wishing to appoint an independent non-executive director holding an interest of more than 1% must satisfy the Exchange, prior to such appointment, that the candidate is independent. A candidate holding an interest of 5% or more will normally not be considered independent.

2. When calculating the 1% limit set out in rule 3.13(1), the listed issuer must take into account the total number of shares held legally or beneficially by the director, together with the total number of shares which may be issued to the director or his nominee upon the exercise of any outstanding share options, convertible securities and other rights (whether contractual or otherwise) to call for the issue of shares.

~~(2) will not normally operate as a bar to independence, but where the director has received those shares an interest in any securities of the listed issuer as a gift from, or by means of other financial assistance, from a connected person or the listed issuer itself. However, subject to Note 1 to rule 3.13(1), the director will still be considered independent if he receives shares or interests in securities from the listed issuer or its subsidiaries (but not from connected persons) as part of his director's fee or pursuant to share option schemes established in accordance with Chapter 17, this will tend to indicate that he is not independent;~~

(3) is a director, partner or principal of a professional adviser which currently provides or has within one year immediately prior to the date of his proposed appointment provided services, or is an employee of such professional adviser who is or has been involved in providing such services during the same period, to:

(a) the listed issuer, its holding company or any of their respective subsidiaries or connected persons; or

(b) any person who was a controlling shareholder or, where there was no controlling shareholder, any person who was the chief executive or a director (other than an independent non-executive director), of the listed issuer within one year immediately prior to the date of the proposed appointment, or any of their associates;

(4) has a material interest in any principal business activity of or is involved in any material business dealings with the listed issuer, its holding company or their respective subsidiaries or with any connected persons of the listed issuer;

(5) is on the board specifically to protect the interests of an entity whose interests are not the same as those of the shareholders as a whole;

(6) is or was connected with a director, the chief executive or a substantial shareholder of the listed issuer within two years immediately prior to the date of his proposed appointment;

Note: Without prejudice to the generality of the foregoing, any person cohabiting as a spouse with, and any child, step-child, parent, step-parent, brother, sister, step-brother and step-sister of, a director, the chief executive or a substantial shareholder of the listed issuer is, for the purpose of rule 3.13(6), considered to be connected with that director, chief executive or substantial shareholder. 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 a director, the chief executive or a substantial shareholder of the listed issuer may in some circumstances also be considered to be so connected. In such cases, the listed issuer will need to provide the Exchange with all relevant information to enable the Exchange to make a determination.

(7) is, or has at any time during the two years immediately prior to the date of his proposed appointment been, an executive or director (other than an independent non-executive director) of the listed issuer, of its holding company or of any of their respective subsidiaries or of any connected persons of the listed issuer; and

Note: An "executive" includes any person who has any management function in the company and any person who acts as a company secretary of the company.

~~(2) as an indication of independence, the director should normally have no past or present financial or other interest in the business of the issuer or its subsidiaries, (other than a shareholding within the parameters set out in sub-paragraph (1) or an interest as a director or professional adviser) and no past or present connection with any connected person of the issuer other than as a professional adviser, which, in either case, might affect his exercise of independent judgment;~~

~~(3) an independent director would not be expected by the Exchange to have any~~

~~management function in the group.~~

~~(8) is financially dependent on the listed issuer, its holding company or any of their respective subsidiaries or connected persons of the listed issuer.~~

~~An independent non-executive director shall submit to the Exchange a written confirmation in respect of the above factors concerning his independence and that there are no other factors that may affect his independence at the same time as the submission of his declaration and undertaking in Form B or H of Appendix 5 and shall inform the Exchange as soon as practicable if there is any subsequent change of circumstances which may affect his independence. Each independent non-executive director must provide an annual confirmation of his independence to the listed issuer. The listed issuer must confirm in each of its annual reports whether it has received such confirmation and whether it still considers the independent non-executive director to be independent.~~

Note: The factors set out in rule 3.13~~4~~ are included for guidance only and are not intended to be exhaustive. The Exchange may take account of other factors relevant to a particular case in assessing independence.

~~3.14 Where a proposed independent non-executive director fails to meet any of the independence guidelines set out in rule 3.13, the listed issuer must demonstrate to the satisfaction of the Exchange, prior to the proposed appointment, that the person is independent. The listed issuer must also disclose the reasons why such person is considered to be independent in the announcement of his appointment as well as in the next annual report published after his appointment. In cases of doubt, the listed issuer must consult the Exchange at an early stage.~~

~~3.15 Independent non-executive directors who were appointed by listed issuers on or before 31 March, 2004 shall submit to the Exchange a written confirmation in respect of the factors set out in rule 3.13 concerning their independence no later than 30 September, 2004.~~

~~3.16~~2~~ A listed issuer must ensure that its directors accept full responsibility, collectively and individually, for the listed issuer's compliance with the Exchange Listing Rules.~~

~~3.17~~3~~ Every director shall comply with the Model Code set out in Appendix 10 or the listed issuer's own code on no less exacting terms. The Model Code sets out the required standard which the Exchange requires all listed issuers and their directors to meet and any breach of such required standard will be regarded as a breach of the Exchange Listing Rules. A listed issuer may adopt its own code on terms no less exacting than those set out in the Model Code. Any breach of its own code will not be regarded as a breach of the Exchange Listing Rules provided that the required standard under the Model Code is met.~~

~~3.18~~4~~ As a minimum, listed issuers should aim to comply with the guidelines for boards of directors issued by the Exchange from time to time. Listed issuers may adopt their own, more comprehensive, guidelines as an alternative.~~

~~3.19~~5~~ In respect of all listed issuers whose securities were admitted to listing on or before ~~1st August 1993~~ 31 March, 2004, the following transitional provisions apply:—~~

~~(1a) the listed issuer must ~~ensure appointment of~~ have at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise by ~~1st January 1994~~ 30 September, 2004; and~~

(2b) the listed issuer must have at least three ~~ensure the appointment of a second~~ independent non-executive directors by ~~31st December, 1994~~ 30 September, 2004.

3.2046 Every director of a listed issuer shall provide to the Exchange, immediately upon his resignation as a director of the listed issuer, his up-to-date contact information, including his address for correspondence from and service of notices and other documents by the Exchange and telephone number.

Audit Committee

3.21 Every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2). The majority of the audit committee members must be independent non-executive directors of the listed issuer. The audit committee must be chaired by an independent non-executive director.

Notes: 1. The transitional provisions set out in rule 3.19 shall apply.

2. For further guidance on establishing an audit committee, listed issuers may refer to "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants in February 2002. Listed issuers may adopt the terms of reference set out in that guide, or they may adopt any other comparable terms of reference for the establishment of an audit committee.

3. Please see also the note to rule 3.10(2).

3.22 The board of directors of the listed issuer must approve and provide written terms of reference for the audit committee which clearly establish the committee's authority and duties.

3.23 A listed issuer shall immediately inform the Exchange and publish in the newspapers an announcement containing the relevant details and reasons if the listed issuer fails to set up an audit committee or at any time has failed to meet any of the other requirements set out in rule 3.21 regarding the audit committee. Listed issuers shall set up an audit committee and/or appoint appropriate members to the audit committee to meet the requirement(s) within three months after failing to meet such requirement(s).

Qualified Accountant

3.24 Every listed issuer must ensure that, at all times, it employs an individual on a full time-basis. The responsibility of such individual must include oversight of the issuer and its subsidiaries in connection with its financial reporting procedures and internal controls and compliance with the requirements under the Exchange Listing Rules with regard to financial reporting and other accounting-related issues. The individual must be a member of the senior management of the listed issuer (preferably an executive director) and must be a qualified accountant and a fellow or associate member of the Hong Kong Society of Accountants or a similar body of accountants recognised by that Society for the purpose of granting exemptions from the examination requirement for membership of that Society. This rule does not apply to a listed issuer of debt securities, the equity securities of which are not listed on the Exchange.