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# HKEx Publishes Consultation Paper On Proposed Changes To Its Connected Transaction Rules

## Introduction

HKEx has published a consultation paper (the "Consultation Paper") on proposed changes to its connected transaction rules. The proposed revisions address specific requirements of the connected transaction regime which are unduly burdensome or restrictive, or which catch persons or transactions beyond the intended purpose of the Rules.

In summary, the proposals include:

* Either: (i) excluding from the definition of "connected person", all persons connected by virtue of their relationship with a subsidiary of the issuer; or (ii) exempting from the connected transaction requirements only persons connected by virtue of a relationship with a subsidiary whose size is "insignificant" in relation to the issuer;
* Raising the de minimis threshold for the exemption from independent shareholders' approval to 5% and that for the exemption from all connected transaction requirements to 1%;
* Introducing two specific exemptions for connected transactions that are of a revenue nature in the issuer's ordinary course of business. The first would apply to transactions with associates of a substantial shareholder of the issuer (or its subsidiaries) which is a sovereign fund or an authorised unit trust or mutual fund with a wide spread of investments and holds its interest as a passive investor. The second would involve expanding the existing exemption for the provision of consumer goods or services so that it will apply to an issuer which acquires such goods or services from connected persons for the purpose of or in connection with its business;
* Revising the definition of "associate" to: (i) exclude certain companies related to an "investee company" (i.e. a company controlled by a connected person and its associates); and (ii) include a company in which a connected person's relative(s) has/have majority control;
* Providing exemptions for certain situations in which an issuer's non-wholly owned subsidiary will not be regarded as a connected person;
* Amending the definition of "connected person" to exclude: (i) promoters for PRC incorporated issuers; (ii) "PRC Governmental Body" for non-PRC issuers; and (iii) management shareholders from the connected person definition in the GEM Rules;
* Allowing the de minimis exemptions to apply to a deemed disposal of an issuer's interest in its subsidiary;
* Extending the exemption for financial assistance provided on a pro-rata basis to a company in which both the issuer and a connected person controlling 10% of that company’s voting power are shareholders to financial assistance provided on a pro-rata basis to a connected person in which the issuer is a shareholder;
* Extending the exemption for an acquisition of an interest in a target company where the substantial shareholder of the target will become a controller only because of its position and/or shareholding in the target so that it also applies to an issuer's disposal of its interest in the target; and
* Clarifying that the annual review requirement in relation to continuing connected transactions applies only to those transactions which are subject to the reporting and disclosure requirements and not to those exempt from the connected transaction requirements.

The Consultation Paper is available on the HKEx website at [*here*](http://www.hkex.com.hk/consul/marketconsultation.htm). Parties interested in responding should return their completed Questionnaire ([*here*](http://www.hkex.com.hk/consul/paper/cp200910ctq_e.doc)) to HKEx no later than 2 December 2009.

## A. Transactions With Persons Connected With An Issuer Only By Virtue Of Their Relationship With The Issuer's Subsidiaries

### Background

The definition of connected person under Rules 1.01 and 14A.11 includes a director, chief executive or substantial shareholder of the issuer or any of its subsidiaries or an associate of any of them. 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 under Chapter 14A.

The HKEx Rules governing transactions connected at the subsidiary level are more stringent than those in the UK, Singapore and Australia. Issuers' arguments in favour of relaxing the requirements include:

* There is no obvious need for transactions with persons connected at the subsidiary level to be subject to the connected transactions Rules. Since an issuer has majority control over its subsidiaries, any undue influence on a subsidiary by a person connected at the subsidiary level is subject to the check and balance of the issuer's board of directors who would act in the interests of the issuer. There should be no conflict of interest given the alignment of interest between the issuer and its public shareholders. It is therefore considered that a person is unlikely to be able to unduly influence the issuer's action only by virtue of his relationship with the subsidiary.
* Some issuers operating with international joint venture partners have found it difficult to get them to comply with the connected transaction requirements (including, for example, providing information on their associates, signing framework agreements for continuing connected transactions and disclosing the terms of transactions considered to be confidential). It is argued that these joint venture partners operate independently and transactions with them are negotiated at arm's length.

Arguments against exempting persons connected at the subsidiary level altogether include that the majority of an issuer's activities are often conducted through its subsidiaries. Persons connected at the issuer level could take advantage of their position and introduce persons associated with them as shareholders or directors of the issuer's subsidiaries. It is argued that transactions with these persons connected at the subsidiary level could be abusive to the issuer's minority shareholders and the checks and balances of the issuer may not be effective.

There are doubts on the one hand as to whether the scope of the connected transaction rules needs to be so wide in order to catch this type of potential abuse or whether there are more efficient ways of addressing the concerns. The Exchange is entitled, for example, to deem a person to be connected in individual cases. Others have reservations about exempting all persons connected at the subsidiary level and are concerned that a director or substantial shareholder of a major operating subsidiary can have a significant influence on the issuer group, particularly where that subsidiary carries out most of the activities of the issuer group.

### Consultation Options: Exemption for all persons connected at the subsidiary level or only for persons connected via "insignificant" subsidiaries

Both the Exchange and participants in a soft consultation support some relaxation of the current Rules on transactions with persons connected at the subsidiary level.

Given the diversity of views, HKEx is consulting on two options:

1. Whether to exclude from the connected transaction requirements completely persons connected at the level of an issuer's subsidiaries; or
2. To provide a specific exemption for a transaction with a person who is connected at the level of one or more of the issuer's subsidiaries whose size is, individually or in aggregate, "insignificant" to the issuer (or with an associate of such person).

#### Definition of “insignificant” subsidiary

There are also two proposals as to how to define an "insignificant" subsidiary:

1. Based on the concept of "major subsidiary" in Rule 13.25, the proposed exemption would apply to persons connected with a subsidiary or subsidiaries which has, or have, represented less than 5% of the total assets, profits or other revenue of the issuer in the latest financial year.
2. Based on the UK approach which adopts a 10% threshold based on three years' financial figures, thus smoothing out exceptional fluctuations and safeguarding against potential abuse of the system.

HKEx also proposes to adopt a provision similar to that provided in the U.K., that if the "insignificant" subsidiary is party to the transaction or its securities/assets are subject to the transaction, the ratio of consideration to market capitalisation of the listed company must be less than 10%.

#### Requirements for exempt continuing connected transactions

For any continuing connected transactions falling within the proposed exemption, it is proposed that the duration of the agreement must follow the requirements in Rule 14A.35 (i.e. it must not exceed 3 years except in special circumstances) and the issuer must reassess the situation annually based on the group's latest published audited financial information. It is also proposed that the issuer should maintain a list of its insignificant subsidiaries.

## B. De Minimis Thresholds That Trigger Disclosure Or Shareholders' Approval Requirement For Connected Transactions

### Background

In the 2004 Rule amendments, the materiality of the de minimis exemptions was not reviewed. The percentage thresholds were adjusted in accordance with changes in the size test calculation methods but the monetary thresholds of HK$1 million and HK$10 million were not changed. HKEx recognises that their de minimis exemptions are considerably more stringent that those in the UK, Singapore and Australia.

HKEx notes, in particular, that in the UK and Singapore a transaction which meets the relevant 5% threshold also constitutes a discloseable transaction. Thus a connected transaction which is of the size of a discloseable transaction or above will require independent shareholders' approval in those jurisdictions. While Hong Kong's Listing Rules also adopt a 5% threshold for a discloseable transaction, the de minimis threshold that exempts a connected transaction from the independent shareholders' approval requirement is 2.5%. HKEx therefore considers it appropriate to increase this threshold to 5% which is in line with other markets.

In addition, the percentage threshold which exempts a transaction from all connected transaction requirements is considerably lower than in other listing jurisdictions. Although the UK threshold is 0.25%, transactions of a revenue nature in the ordinary course of business are not subject to the connected transaction requirements.

### Proposals

HKEx proposes to revise the de minimis thresholds to:

1. Exempt from the independent shareholders' approval requirement:
Transactions where each or all of the percentage ratios (except profits ratio) is/are:
	1. less than 5%; or
	2. equal to or more than 5% but less than 25% and the total consideration is less than HK$10 million.
2. Exempt from all reporting, announcement and independent shareholders' approval requirements:
Transactions where each or all of the percentage ratios (except profits ratio) is/are:
	1. less than 1%; or
	2. equal to or more than 1% but less than 5% and the total consideration is less than HK$1 million.

There is a view however that because the de minimis threshold is expressed as a percentage and that percentage is proposed to be increased, the monetary value of an exempted connected transaction for a large company could be significant and that a monetary cap should therefore be imposed in addition to the percentage cap. The argument against this is that the de minimis exemptions are meant to provide relief from the compliance burden where the transaction size is immaterial to the particular issuer. Materiality should be expressed as a percentage of the issuer's financial figures, in line with international practice. The additional difficulty with setting an absolute monetary cap is setting it at a level which is "material" given the variance in the size of Hong Kong listed companies. The HKEx does not propose to introduce a monetary cap but is open to views to the contrary.

## C. Transactions That Are Revenue In Nature And In The Ordinary And Usual Course Of Business

Transactions of a revenue nature in the issuer's ordinary and usual course of business, whether one-off or continuing transactions, are within the definition of connected transactions under Rule 14A.10(13). Views have been expressed that Hong Kong's regulation of connected transactions of a revenue nature is out of sync with international norms and should be relaxed. The Listing Rules of both the U.K. and Australia exclude transactions of a revenue nature from the related party/connected transaction requirements.

Given the large number of majority controlled companies and state-controlled PRC companies listed in Hong Kong, HKEx does not consider it appropriate to introduce a general exemption for revenue transactions with connected persons. HKEx does appreciate, however, that the current continuing connected transaction Rules have imposed significant administration burdens on issuers for conducting revenue transactions in the ordinary and usual course of business. It notes in the Consultation Paper that in 2008, 51% of revenue transactions with connected persons had a value of 2% or less.

The proposed relaxation of the de minimis exemptions (see Part B above) will lessen compliance burdens for revenue transactions. In addition, HKEx proposes to introduce the following specific exemptions:

### i. An exemption for revenue transactions with associates of a passive investor

In particular, it is proposed to exempt revenue transactions with associates of a substantial shareholder of the issuer, including its subsidiaries, which is a sovereign fund or an authorised unit trust or mutual fund with a wide spread of investments and holds its interest in the issuer and/or its subsidiaries as a passive investor. The rationale for the exemption is that where a sovereign fund or authorised unit trust or mutual fund has a wide spread of investments, it is difficult to identify this shareholder's associates and strict application of the connected transaction Rules on revenue transactions with this shareholder's associates could impose constraints on the issuer’s ordinary course of business.

#### The definition of passive investor

For the exemption to apply, the substantial shareholder must be a passive investor and meet the following criteria:

* It is a sovereign fund, or a unit trust or mutual fund authorised by the Securities and Futures Commission or an appropriate overseas authority;
* It has a wide spread of investments other than securities in the issuer (or any of its subsidiaries) and the relevant associate;
* It and the relevant associate are connected persons only because it is a substantial shareholder of the issuer or any of its subsidiaries;
* It is not a controlling shareholder of the issuer or any of its subsidiaries;
* 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 group's management;
* 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 scope of this exemption will however be narrow given the proposed requirements. Apparently, a majority of the participants in the soft consultation considered it too onerous to require the passive investor to have no representative on the board of directors of the issuer. Some participants also wanted to see the exemption extended to private equity funds.

### ii. Proposed modification of the exemption for the provision of consumer goods or consumer services

The scope of this exemption will however be narrow given the proposed requirements. Apparently, a majority of the participants in the soft consultation considered it too onerous to require the passive investor to have no representative on the board of directors of the issuer. Some participants also wanted to see the exemption extended to private equity funds.

The current Rule 14A.31(7) provides an exemption for the acquisition as consumer or realisation in the ordinary course of business of consumer goods or services by an issuer from or to a connected person on normal commercial terms. It is however a condition of the exemption that the consumer goods or services must be provided for the purpose of or in connection with any business or contemplated business of the acquirer. The result is that the exemption can only apply to an issuer if it provides consumer goods or services to individual consumers (e.g. an issuer's director). The exemption will not however apply to an acquisition of goods or services by an issuer because it will acquire them in connection with its business. Under the current Rules, for example, provision of utilities by a connected person to the issuer will not qualify for the exemption even if the utilities are also provided to the general public on the same terms.

HKEx therefore proposes to expand the exemption to allow an issuer to acquire consumer goods or services from connected persons in relation to the issuer's business, provided that there is an open market and transparency in pricing the relevant goods or services, and all other existing conditions are met.

## D. Definition Of Associates

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

The definition of associate is intended to catch persons who are closely related with a connected person. It includes:

1. family members;
2. a group company, if the connected person is a company;
3. a trustee for any trust of which the connected person (and in the case of an individual, his family members) is a beneficiary; and
4. any other company ("investee company") where the connected person and the above entities have control, and any subsidiaries of the investee company.

The current definition of associate also extends to entities related to the investee company, including:

1. the holding company of the investee company or a fellow subsidiary of this holding company; and
2. a company controlled by the investee company (which is not the investee company's subsidiary) (e.g. a company in which the investee company is a 30% shareholder), and its subsidiary, holding company or fellow subsidiary.

It is considered unlikely that the connected person can exert significant influence over the investee company's holding company and its fellow subsidiaries or the investee company's associated companies and take advantage in the transactions between the issuer and these entities.

"Associates" for similar connected transaction rules in the UK and Singapore do not extend to the entities described in paragraphs (v.) and (vi.), above. HKEx therefore proposes to amend Rules 1.01 and 19A.04 to remove such entities from the definition of "associate".

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

The definition of associate that applies for the purposes of connected transactions is extended by Rule 14A.11(4) to include:

1. close relatives of a connected person; and
2. other relatives of the connected person.

This definition includes the connected person's relatives, but does not catch a company controlled by any of these relatives as an associate. In the past, to deal with the potential loophole, HKEx has used the deeming provisions to treat companies in which these relatives had majority control as connected persons. To remove the loophole, HKEx now proposes to expand the scope of associate to a company where any of the relatives specified in the Rules is entitled to exercise or control the exercise of more than 50% of the voting power at this company's general meetings or is in a position to control the composition of a majority of the board of directors.

## E. Definition Of Connected Person

### 1. Non wholly-owned subsidiary

#### i. Rules 14A.11(5) and (6)

Rules 14A.11(5) and (6) define a connected person as including: (a) any non wholly-owned subsidiary of the issuer where any connected person(s) of the issuer (other than at the level of a subsidiary) can exercise or control the exercise of 10% or more of the voting power; and (b) any subsidiary of this non wholly-owned subsidiary ("connected subsidiary").

By definition, a transaction between a connected subsidiary and its own subsidiary, or between subsidiaries of the connected subsidiary, is a connected transaction. However, HKEx does not intend to catch such transactions as there is no concern about possible abuse by the connected person to the detriment of the minority shareholders. Waivers have been granted previously in this situation. It is now proposed to introduce a specific exemption.

#### ii. Rules 14.11(1) and (4)

A non wholly-owned subsidiary that is a substantial shareholder of another subsidiary of the issuer is also a connected person under Rule 14A.11(1). Also, a non wholly-owned subsidiary that is an associate of a director, chief executive or substantial shareholder of any subsidiary of the issuer is a connected person under Rule 14A.11(4).

HKEx therefore proposes to amend Rule 14A.11 to specify that a non wholly-owned subsidiary would not be regarded as a connected person in these circumstances.

### 2. Promoter of a PRC issuer

Rules 1.01 and 14A.11(3) include a promoter of a PRC issuer or any of its subsidiaries as a connected person. No similar requirement exists for non-PRC issuers. It is thought that it may no longer be appropriate to treat a person as connected merely because they are a promoter of the issuer, given that promoters have no particular influence over the issuer after listing. HKEx therefore proposes to exclude a promoter of a PRC issuer and any of its subsidiaries (and his/its associates) from the definition of connected person under Chapters 1 and 14A.

### 3. PRC Governmental Body

Chapter 19A of the Rules provides that the Exchange will not normally treat a PRC Governmental Body as a connected person of a PRC issuer. Given the "state-owned" nature of PRC issuers, the provisions in relation to PRC Governmental Bodies were introduced in 1999 to codify the then practice of determining the controlling shareholders of PRC issuers. However, some non-PRC issuers, for example red-chip companies and companies with state-owned enterprises being the substantial shareholders of their subsidiaries, have had similar difficulties in identifying their connected persons.

It is now proposed to introduce provisions in Chapter 14A so that a PRC Governmental Body will not normally be treated as a connected person of a non-PRC issuer.

### 4. Management shareholder of a GEM issuer

Under GEM Rule 1.01, the definition of a connected person includes a director, chief executive, substantial shareholder, management shareholder or (for PRC issuers only) a promoter or supervisor, of the issuer or any of its subsidiaries or an associate of them. This concept of a management shareholder appears in the GEM Rules but not the Main Board Rules, thus causing a difference in the definition of a connected person.

The original objective of GEM was to provide a capital raising platform for emerging companies. Management shareholders were thus seen as principal shareholders and were subject to specific requirements, including lock-up requirements. When GEM was repositioned as a second board in May 2008 and amendments were made to the Rules as first steps in a move to unify Main Board and GEM practices, some requirements concerning management shareholders were removed since they were no longer needed.

HKEx now proposes to remove "management shareholder" from the definition of connected person in the GEM Rules to align the connected person definition in the two sets of Rules.

## F. Other Changes To The Connected Transaction Rules

### 1. Exemption for small transaction involving issue of new securities by subsidiary

Rules 14A.31(2) and 14A.32 exempt small transactions from disclosure and/or shareholders' approval requirements. According to the Notes to these Rules, such exemptions do not apply to the issue of new securities by an issuer, or therefore its subsidiary, to a connected person. As the issue of securities by the issuer's subsidiary is in substance a deemed disposal of the issuer's interest in the subsidiary, it should be treated in the same way as any straight disposal. HKEx therefore proposes to amend the Notes to Rules 14A.31(2) and 14A.32 by removing the restriction on applying the de minimis exemptions to deemed disposals.

### 2. Exemption for financial assistance provided on a pro-rata basis

Rule 14A.13(2)(a) states that connected transactions include an issuer giving financial assistance to:

1. a connected person; or
2. a company in which both the issuer and a connected person are shareholders and where any connected person(s) of the issuer (except at the level of a subsidiary) can control 10% or more of the voting power at any general meeting of the company (a "commonly held entity").

Under Rules 14A.65(3)(b)(i), financial assistance given by an issuer for the benefit of a commonly held entity is exempt from all connected transaction requirements if the assistance being given is in proportion to the issuer's equity interest in the entity and any guarantee given by the issuer is on a several (and not joint and several) basis.

However, there is no similar exemption if the financial assistance is given for the benefit of a connected person in which the issuer is a shareholder. As the risk of abuse is considered remote, HKEx proposes to clarify that the exemption will also apply where the commonly held entity is also a connected person.

### 3. Transactions with third parties involving joint investments with connected persons

Rule 14A.13(1)(b)(i) states that a connected transaction includes any transaction between a listed issuer and a person who is not a connected person, and the transaction involves the listed issuer acquiring or disposing of an interest in a company where a substantial shareholder of that company is or is proposed to be, a controller or is (or will become as a result of the transaction) an associate of a controller.

Note 3 to this Rule exempts an acquisition of an interest in a target company where the substantial shareholder of the target company will become a controller only because of his position and/or shareholding in that company. The reasoning behind the exemption is that the target company’s substantial shareholder is an independent third party before the acquisition and it is unlikely that this person is able to exert influence over the listed group and achieve an advantage in the acquisition to the detriment of the issuer's shareholders.

There is no similar exemption applicable to the disposal of an interest in the target company by an issuer. Although the substantial shareholder is already a connected person at the time of the disposal because of its relationship with the target company, the risk that this shareholder can exert significant influence over the issuer and the transaction with a third party is considered remote. HKEx therefore proposes to extend the exemption under Note 3 to Rule 14A.13(1)(b)(i) to disposal transactions.

### 4. Annual review of continuing connected transactions

Rules 14A.37 and 14A.38 set out requirements for annual reviews of continuing connected transactions by independent non-executive directors and auditors. However, it is unclear from the Rules whether the annual review requirements apply to all connected transactions, including those which are exempt from the reporting, disclosure and independent shareholders' approval requirements.

It is therefore proposed to amend the Rules to clarify that the annual review requirements apply to continuing connected transactions that are subject to reporting and disclosure requirements in Chapter 14A.

## Appendix A: List Of Consultation Questions

Q1: Do you think that the definition of connected person should exclude persons connected by virtue of their relationship with an issuer's subsidiaries? Please provide reasons for your views.

Q2: If your answer to Q1 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q3: 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? Please provide reasons for your views.

Q4: Based on your experience, do you think that the "insignificant subsidiary exemption" would be used by you (or for market practitioners, your clients)? Please describe the circumstances and refer to Option 1 or 2.

Q5: If your answer to Q3 is "Yes", do you agree with

1. the proposed materiality threshold under (i) Option 1 or (ii) Option 2? Please provide reasons for your views.
2. the proposed bases for assessing the significance of a subsidiary, i.e. the asset ratio, revenue ratio and the profits ratio? Please provide reasons for your views.
3. 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? Please provide reasons for your views.
4. the proposed mechanism for applying the exemption to continuing connected transactions described in paragraph 27? Please provide reasons for your views.

Q6: If your answers to Q5 are "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q7: If you agree with Option 2, do you think that the definition of "major subsidiary" under Rule 13.255 should be amended to align with that in the "insignificant subsidiary exemption" if adopted? Please provide reasons for your views.

Q8:

1. 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. Please also provide reasons for your views.
2. 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. Please also provide reasons for your views.

Q9: If your answer to Q8 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q10: Do you agree that a percentage threshold is sufficient to assess whether a connected transaction is eligible for the de minimis exemptions? Please provide reasons for your views.

Q11: 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:

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

The monetary cap for connected transactions exempt from independent shareholders' approval would be adjusted proportionately.

Q12: Do you agree that the connected transaction Rules should govern revenue transactions with connected persons? Please provide reasons for your views.

Q13: 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? Please provide reasons for your views.

Q14: 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? Please provide reasons for your views.

Q15: If your answer to Q13 is "Yes",

1. do you agree that the passive investor must be a sovereign fund or an authorised unit trust or mutual fund?
2. do you think that the exemption should be made available to other passive investors? If so, which?
3. do you agree that the passive investor must not have representative on the board of directors of the issuer and its subsidiaries?
4. do you agree with other proposed conditions?
5. do you think that the exemption should be made available to other passive investors? If so, which?

Please provide reasons for your views.

Q16: If your answer to Q13 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q17: Do you agree with the proposed changes to expand the exemption for acquisition of consumer goods or services described in paragraph 66? Please provide reasons for your views.

Q18: If your answer to Q17 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q19: Can you think of any other suggestions to improve the regulation of revenue transactions with connected persons?

Q20: Do you support the proposal to carve out from the definition of associate the following entities?

1. The holding company of the investee company or a fellow subsidiary of this holding company described in paragraph 68(e).
2. A company controlled by the investee company (not being a subsidiary of the investee company) described in paragraph 68(f) and this company's subsidiary, holding company and fellow subsidiary.

Please provide reasons for your views.

Q21: If your answer to Q20 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q22: 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? Please provide reasons for your views.

Q23: If your answer to Q22 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q24: 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? Please provide reasons for your views.

Q25: If your answer to Q24 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q26: 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)? Please provide reasons for your views.

Q27: If your answer to Q26 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q28: Do you support the proposal to delete "promoter" of a PRC issuer from the definition of connected person? Please provide reasons for your views.

Q29: If your answer to Q28 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q30: Do you support the proposal to apply those provisions for PRC Governmental Body in Chapter 19A to connected persons of non-PRC issuers? Please provide reasons for your views.

Q31: If your answer to Q30 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q32: Do you support the proposal to delete "management shareholder" from the definition of connected person in the GEM Rules? Please provide reasons for your views.

Q33: If your answer to Q32 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q34: 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? Please provide reasons for your views.

Q35: If your answer to Q34 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q36: 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? Please provide reasons for your views.

Q37: If your answer to Q36 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No”, please provide reasons and alternative views.

Q38: 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? Please provide reasons for your views.

Q39: If your answer to Q38 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q40: 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? Please provide reasons for your views.

Q41: If your answer to Q40 is "Yes", do you agree that the proposed draft Rule amendments in Appendix I will implement our proposal? If your answer is "No", please provide reasons and alternative views.

Q42: Are there any other comments you would like to make? If your answer is "Yes", please elaborate your views.

*The purpose of this note is to provide a summary only of information included in the Hong Kong Stock Exchange's "Consultation Paper on Proposed Changes to the Connected Transaction Rules (October 2009)". Its contents do not constitute legal advice and specific advice should be sought in relation to any particular situation.*

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