



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

DIRECTOR'S HANDBOOK

June 2013

FIRST UPDATE IN JUNE 2002
SECOND UPDATE IN MARCH 2003
THIRD UPDATE IN MAY 2003
FOURTH UPDATE IN NOVEMBER 2003
FIFTH UPDATE IN APRIL 2004
SIXTH UPDATE IN OCTOBER 2004
SEVENTH UPDATE IN JUNE 2005
EIGHTH UPDATE IN APRIL 2006
NINTH UPDATE IN APRIL 2007
TENTH UPDATE IN JUNE 2008
ELEVENTH UPDATE IN APRIL 2009
TWELFTH UPDATE IN NOVEMBER 2009
THIRTEENTH UPDATE IN JUNE 2010
FOURTEENTH UPDATE IN MAY 2011
FIFTEENTH UPDATE IN JANUARY 2012
SIXTEENTH UPDATE IN FEBRUARY 2013
SEVENTEENTH UPDATE IN JUNE 2013

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Appendix – Group Structure

<p>Chapter 1 GLOSSARY OF TERMS</p>
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“Board”	Board of Directors of HKEx
“Code”	The Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Director(s)”	Director(s) of any companies of the Group unless otherwise specified or provided in this Handbook
“Elected Director”	HKEx’s Director elected by the Shareholders at general meetings
“Government Appointed Director”	HKEx’s Director appointed by the Financial Secretary of Hong Kong pursuant to Section 77 of the SFO
“Group”	HKEx and its subsidiaries
“HKEx” or the “Company”	Hong Kong Exchanges and Clearing Limited
“HKFE”	Hong Kong Futures Exchange Limited
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“HKCC”	HKFE Clearing Corporation Limited
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Inside Information Provisions”	Part XIVA of the SFO
“LME”	The London Metal Exchange
“LMEH”	LME Holdings Limited
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“M&A”	Memorandum and Articles of Association of HKEx
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules
“MOU for listing”	Memorandum of Understanding for listing of HKEx
“OTC Clear”	OTC Clearing Hong Kong Limited
“SEHK”	The Stock Exchange of Hong Kong Limited
“SEOCH”	The SEHK Options Clearing House Limited
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance
“Shareholders”	Shareholders of HKEx

In this Handbook, words in masculine feminine and neuter gender include the other of them and words in the singular include the plural and vice versa.

Chapter 2

EXECUTIVE SUMMARY

1.0 INTRODUCTION

- 1.1 The purpose of this Handbook is to give Directors an overview of the key governance issues and a record of the key corporate information of HKEx.

As part of the securities and futures market reform in 1999, HKEx was established in July 1999 to consolidate under a single holding company the two recognized exchange companies and three recognized clearing houses operating in Hong Kong.

- 1.2 Under two schemes of arrangement each dated 3 September 1999, SEHK and HKFE became wholly-owned subsidiaries of HKEx. HKSCC was converted from a company limited by guarantee to a company limited by shares and through the issue of shares to HKEx, became a wholly-owned subsidiary of HKEx as provided under Section 21 of the repealed Exchanges and Clearing Houses (Merger) Ordinance. The merger took effect on 6 March 2000, and HKEx was listed on SEHK by introduction on 27 June 2000.

SEHK and HKFE are the recognized exchange companies, and HKSCC, SEOCH and HKCC are the recognized clearing houses, as defined in the SFO. Pursuant to Section 10 of Schedule 10 of the SFO, HKEx is deemed to have been recognised as an exchange controller under Section 59(2) of the SFO.

- 1.3 Pursuant to Section 60 of the SFO, HKEx as an exchange controller cannot increase or decrease its interest in the exchanges and clearing houses. Any attempt to increase or decrease any such interest is void except with the SFC's approval in writing.
- 1.4 In December 2012, HKEx acquired LMEH by way of a scheme of arrangement. LMEH is the holding company of LME, a leading exchange for the trading of non-ferrous metals forward and options contracts. LME is a Recognised Investment Exchange regulated by the Financial Conduct Authority of the United Kingdom.
- 1.5 OTC Clear was incorporated as a wholly-owned subsidiary of HKEx on 16 May 2012 for the purpose of acting as the clearing house for OTC derivatives in Hong Kong. Subsequently, on 8 April 2013, HKEx, under the Founding Member programme invited 12 financial institutions as founding members of OTC Clear, who in total will hold 25% of issued share capital in OTC Clear (in the form of non-voting ordinary shares) whilst HKEx will hold the remaining 75%. HKEx will continue to hold 100% of the voting ordinary shares of OTC Clear.

OTC Clear is currently in the process of obtaining the formal recognition from the SFC to be the recognized clearing house for OTC traded derivatives in Hong Kong.

The current Group structure is in the *Appendix*.

- 1.6 As recognized bodies under the SFO, any amendments to the M&A, and Memorandum and Articles of Association of the respective recognized exchanges and clearing houses are subject to the SFC's approval in writing after they have been approved by the respective shareholders.

The Memorandum and Articles of Association of HKEx's subsidiaries are available upon request.

- 1.7 Given HKEx's role as an exchange controller, the SFC is responsible for the regulation of HKEx as a listed company. For this purpose, chapter 38 has been specifically added to the Listing Rules, which sets out the requirements that must be satisfied for the securities of HKEx to be listed on SEHK. In addition to the Listing Agreement, the MOU for listing was also executed between HKEx and the SFC, under which, the procedures for dealing with situations where a conflict of interest may arise for HKEx as an exchange controller are laid down.
- 1.8 Under Section 63 of the SFO, HKEx has the primary duty to ensure (a) an orderly, informed and fair market in securities and futures contracts traded on its exchanges as well as orderly, fair and expeditious clearing and settlement arrangements in its clearing houses, and (b) risks associated with its business and operations are managed prudently. HKEx shall act in the interest of the public with particular regard to the interest of the investing public; and ensure that the interest of the public prevails where it conflicts with HKEx's interest.
- 1.9 The Board structure is governed by the SFO and the M&A. The appointment / retirement and the term of service of HKEx's Directors are stipulated in the M&A. *Chapter 3* of this Handbook gives a summary of the key provisions.

2.0 DIRECTORS' DUTIES AND RESPONSIBILITIES

- 2.1. The Board is collectively responsible for the management and operations of HKEx, and this performance requirement applies equally to the directors of the companies within the Group.

Directors must in the performance of their duties:

- (a) act honestly and in good faith in the interests of the company and to the Group as a whole, if appropriate;
- (b) act for proper purpose;
- (c) be answerable to the company for the application or misapplication of its assets;
- (d) avoid actual and potential conflicts of interest and duty, unless such interest are permitted under the company's Articles of Association;

- (e) disclose fully and fairly his interests in contracts with any company within the Group; 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 offices within HKEx.

In addition, Directors must also observe other statutory duties as may be required under the applicable laws in the relevant jurisdictions where the company is incorporated.

Directors may delegate their functions, where appropriate but the delegation does not absolve them from their responsibilities or from applying the required levels of skill, care and diligence. Directors cannot discharge their responsibilities by attending meetings only. As a minimum, they must take an active role in the company's affairs and obtain a general understanding of its business. They must follow up anything untoward that comes to their attention. Directors are reminded that if they fail to discharge their duties and responsibilities, they may be disciplined by the relevant regulator and may attract civil and/or criminal liabilities under the applicable laws and regulations in the jurisdictions where the business of the company is being conducted.

- 2.2 HKEx and its principal subsidiaries, namely, SEHK, HKFE, HKSCC, SEOCH, and HKCC are included in the Schedules of the Prevention of Bribery Ordinance as "public bodies". Accordingly, Directors and committee members of HKEx and of the said principal subsidiaries are regarded as "public servants" for the purpose of that ordinance. Guidelines on Conduct have been issued to Directors and committee members to provide guidance in determining situations where advantages may be solicited, offered or accepted.
- 2.3 Every Director should ensure that he can give sufficient time and attention to the affairs of the company on which board he is serving, and disclose to HKEx, the number of offices held in public companies or organisations and his other significant commitments. Directors should avoid conflicts of interest and fully disclose any interest in contracts or potential contracts with any company within the Group, and shall abstain from discussion and voting if there is an actual or potential conflict of interest. Guidelines on Conduct are in place to provide guidance to Directors where interests should be declared.

The Guidelines on Conduct are again set out in **Chapter 4** of this Handbook for Directors' ease of reference.

- 2.4 Every Director is also required to observe his ongoing disclosure obligations, (including without limitation requirements to notify changes in personal particulars and/or circumstances that may affect his independence; to report dealings and interest in HKEx's securities; and to report dealings with any company within the Group, etc.) under the Companies Ordinance, the Listing Rules and/or the SFO, during and, in some cases, after cessation of his term of office at HKEx.

2.5 For HKEx's Director, he is required to execute and deliver to the SFC and SEHK a Declaration and Undertaking with regard to Directors (Form B), under which, he declares that his personal details set out in the announcement made under Rule 13.51(2) of the Listing Rules regarding his appointment as an HKEx's Director are true, complete and accurate; and undertakes, among others, that he will:

- comply to the best of his ability with the Listing Rules in the exercise of his powers and to perform his duties as an HKEx's Director, and use his best endeavours to procure that HKEx shall so comply;
- comply to the best of his ability with Parts XIVA and XV of the SFO, the Code on Takeovers and Mergers, the Code on Share Repurchases, and all other relevant securities laws and regulations from time to time in force in Hong Kong in the exercise of his powers and duties as an HKEx's Director;
- provide to the SFC and SEHK any information and documents that the SFC reasonably considers appropriate to protect investors or ensure the smooth operation of the market, and any other information and documents or explanation that the SFC may reasonably require for the purpose of verifying compliance with the Listing Rules;
- cooperate in any investigation conducted by the SFC, including answering promptly and openly any questions addressed to him, promptly producing the originals or copies of any relevant documents and attending before any meeting or hearing at which he is requested to appear; and
- for so long as he remains an HKEx's Director and for a further period of 3 years from the date on which he ceases to be an HKEx's Director, inform the SFC (Executive Director of the Corporate Finance Division) and SEHK (Head of the Listing Division), by notice in writing, of any change in his contact address for correspondence from, and service of notices and other documents by, the SFC as soon as reasonably practicable and in any event within 28 days of such change.

2.6 Directors are responsible, collectively and individually, for ensuring HKEx to comply with the statutory obligation to disclose inside information as set out in the Inside Information Provisions and its general disclosure obligations under the Listing Rules.

2.6.1 Under Inside Information Provisions, HKEx must as soon as reasonably practicable after any inside information (as defined under section 307A(1) of the SFO) has come to its knowledge, disclose the information to the public.

2.6.2 Under Rule 13.09 of the Listing Rules,

- where in the view of SEHK (in case of HKEx, the SFC) there is or there is likely to be a false market in HKEx's securities, HKEx must announce the information necessary to avoid a false market in its securities as soon as reasonably practicable;
- where HKEx is required to disclose inside information under Inside Information Provisions, it must also simultaneously announce the information; and
- HKEx must simultaneously copy to SEHK any application to the SFC for a waiver from disclosure under the Inside Information Provisions, and promptly upon being notified of the SFC's decision copy SEHK with the SFC's decision.

2.6.3 As required under Rule 13.10A of the Listing Rules, HKEx shall, as soon as reasonably practicable, apply for a trading halt or trading suspension in the circumstances that (i) it has information which must be disclosed under Rule 13.09; or (ii) inside information which must be disclosed under Inside Information Provision; or (iii) the confidentiality of inside information has been or may have been lost, where an announcement cannot be made promptly.

2.6.4 HKEx maintains a Continuous Disclosure and Communication Policy which provides guiding principles, practices and procedures to assist HKEx's employees (including employees of any companies within the Group) in (i) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (ii) communicating with HKEx's stakeholders, in ways which are in strict compliance with the SFO, Listing Rules, and best practices.

2.7 The restrictions on securities dealings and the disclosure of any transacted dealings, connected transactions, and the Code are respectively dealt with in *Chapters 5, 6 and 7* of this Handbook.

2.8 Directors are often required to make certain declarations or disclosures to be filed with the relevant boards, authorities, such as the SFC and SEHK (as the case may be).

2.9 Directors are reminded that, under the SFO, it is a criminal offence for any person to knowingly or recklessly provide false information or misleading material to the SFC, of HKEx, SEHK, HKFE and or any of their clearing houses.

2.10 *Chapter 8* of this Handbook broadly describes the corporate governance structure of HKEx, including the set up and key functions of the Board and the respective committees and panels, for Directors' reference.

2.11 In order to facilitate contact with Directors in case of emergency, Directors shall inform the Company Secretary in advance of their leave from Hong Kong.

3.0 REFERENCE

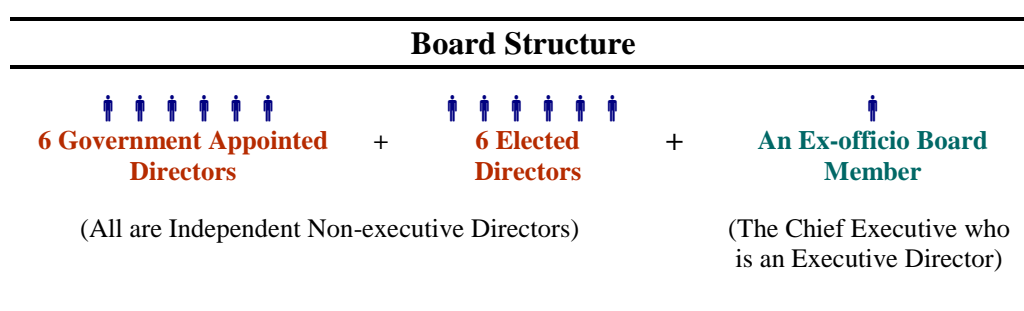
- 3.1 This Handbook only sets out the relevant key information for Directors' ease of reference. Directors should always refer to the primary source of the rules, regulations and ordinances in the jurisdictions where the business is conducted for the details.
- 3.2 This Handbook will be updated periodically to reflect any changes in the content or requirements.

Chapter 3 THE BOARD

1.0 BOARD OF DIRECTORS

(In this Chapter, the Board, Chairman, Director(s) and Chief Executive refer to those of HKEx.)

1.1 The following is the current Board structure



1.2 The number of Directors shall be not less than two and not more than thirteen. (Article 86, M&A)

1.3 The Financial Secretary of the Government of Hong Kong may appoint not more than 8 persons to be members of the Board. (Section 77(1), SFO)

1.4 However, immediately following the annual general meeting of HKEx held in 2003 and thereafter, the number of Government Appointed Directors shall not be more than the maximum number of other members of the Board but excluding the Chief Executive. (Section 77(2), SFO)

1.5 Government Appointed Directors may not be removed by a resolution of the other Directors or a special resolution of HKEx. (Section 77(4), SFO)

1.6 The Financial Secretary may at any time, subject to Section 77 of the SFO, appoint any person as a Government Appointed Director, and remove from office any person so appointed (whether or not his term has been completed). Any Director so appointed shall be appointed for a term of not more than approximately three years expiring at the conclusion of the annual general meeting held in the third year following the year of his appointment. (Article 90(3), M&A)

- 1.7 HKEx may by ordinary resolution elect any person to be a Director, but the total number of Directors so elected shall not at any time exceed six. (Article 90(1), M&A)
- 1.8 Any Elected Director shall be elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Company held in the third year following the year of his appointment. (Article 90(1A), M&A)
- 1.9 Without prejudice to the power of HKEx in general meeting to appoint any person to be a Director, the Directors may at any time, and from time to time, appoint any person to be a Director (other than a Government Appointed Director), either to fill a casual vacancy or by way of addition to the number but the total number of Directors (other than Government Appointed Directors) shall not exceed the maximum number fixed by Article 90(1). The Director so appointed shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to their number), and shall be eligible for reappointment. (Article 92, M&A)
- 1.10 An Elected Director may be removed from office by an ordinary resolution of HKEx or by giving him notice to that effect signed by all the other Directors. (Article 94, M&A)
- 1.11 A retiring Director shall be eligible for reappointment. (Article 93(5), M&A)
- 1.12 No person shall be appointed or re-appointed a Director at any general meeting unless:
- he is recommended by the Directors, or
 - he is nominated by notice in writing by a member (other than the person to be proposed) entitled to attend and vote at the meeting, and such notice of nomination shall be given to the Company Secretary within the seven-day period commencing the day after the despatch of the notice of the meeting (or such other period, being a period of not less than seven days, commencing no earlier than the day after the despatch of the notice of such meeting and ending no later than seven days prior to the date appointed for such meeting, as may be determined by the Directors from time to time). The notice of nomination shall be accompanied by a notice signed by the proposed candidate indicating his willingness to be appointed or re-appointed.

(Article 90(2), M&A)

- 1.13 A Director shall not vote (or be counted in the quorum at a meeting) in respect of any resolution concerning his own appointment (including fixing or varying its terms), or the termination of his own appointment, as the holder of any office or place of profit with HKEx or any other company in which HKEx is interested. (Article 101(6), M&A)

2.0 CHAIRMAN

- 2.1 No person shall be the Chairman of a recognised exchange controller unless he has the approval in writing of the Chief Executive of Hong Kong to hold that office. (Section 69(1), SFO)

- 2.2 The Chairman shall be a non-executive Director and shall be appointed for an initial term coinciding with his term as a non-executive Director and may be re-appointed for a further period or periods up to a maximum of the longer of six consecutive years or six consecutive annual general meetings (excluding any general meeting held in the year 2000). After having served for the maximum consecutive periods, the Chairman shall not be eligible for reappointment until the later of one year after he ceases to be the Chairman or the next annual general meeting after he ceases to hold office. (Article 111(2), M&A)

- 2.3 A person may only be removed from his office as Chairman by:

- a resolution of the Directors passed by two-thirds in number of the Directors from time to time; or
- written notice from the Chief Executive of Hong Kong removing him from his office in accordance with Section 69 of the SFO.

(Article 111(2), M&A)

3.0 CHIEF EXECUTIVE / CHIEF OPERATING OFFICER

- 3.1 No appointment of a person as the Chief Executive or the Chief Operating Officer of a recognised exchange shall have effect unless the appointment has been approved by the SFC in writing. (Section 70(1), SFO)

- 3.2 The Chief Executive shall be an ex-officio Director and whose term will be coterminous with the term of his employment as the Chief Executive established in his employment contract. (Article 90(4), M&A)

4.0 BOARD PROCEEDINGS

4.1 Four Directors shall constitute a quorum for a Board meeting provided not less than half of such number of Directors as shall constitute a quorum from time to time shall be Government Appointed Directors. (Article 102, M&A)

4.2 Board meeting may consist of a conference between the Directors some or all of whom are in different places provided that each Director is able:

- to hear each of the other participating Directors addressing the meeting; and
- if he so wishes, to address all of the other participating Directors simultaneously,

whether directly, by conference telephone or by any other form of communications equipment or by a combination of those methods. A quorum is deemed to be present if these conditions are satisfied in respect of at least the number of Directors required to form a quorum. (Article 108(2)(a)&(b), M&A)

The Chairman is entitled to have a second or casting vote at the Board meetings in case of an equality of votes. (Article 102, M&A)

4.3 A Director shall not vote or be counted in the quorum at a meeting in relation to any resolution relating to any contract or arrangement or proposal in which he or any of his associates has a material interest, except in situations as prescribed in Article 101(7), M&A.

4.4 If any question arises at any Board meetings as to the materiality of an interest of a Director and any of his associates or as to the entitlement of any Director to vote, the question shall be referred to the Chairman and his ruling in relation to the Director concerned shall be final and conclusive. If any question arises in respect of the Chairman or any of his associates, the question shall be decided by a resolution of the Directors. (Article 101(10), M&A)

4.5 In the event that a Director requests to consult an external professional adviser, he shall inform the Company Secretary specifying the matter concerned. If there is no disagreement received from the other Board members, the Company Secretary, having obtained the Chairman's approval, will proceed to obtain independent professional advice.

5.0 INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDs”)

- 5.1 Under Rule 3.10A of the Listing Rules, an issuer must appoint INEDs representing at least one-third of the board. In assessing the independence of a non-executive Director, the SEHK (in the case of HKEx, the SFC) will take into account the factors as set out in Rule 3.13 of the Listing Rules. Every non-executive Director of HKEx has written to the SFC confirming his independence.
- 5.2 Pursuant to paragraph 12B of the Appendix 16 to the Listing Rules, each INED has to make an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee will annually review and assess the independence of INEDs pursuant to code provision A.5.2(c) of the Code.
- 5.3 Pursuant to code provision A.4.3 of the Code, serving more than 9 years could be relevant to the determination of a non-executive director’s independence. If an INED serves more than 9 years, his further appointment will be subject to a separate resolution to be approved by shareholders. The circular to shareholders accompanying that resolution will include the reasons why the Board believes he is still independent and should be re-elected.

Chapter 4 GUIDELINES ON CONDUCT

1.0 INTRODUCTION

1.1 Section 4 of the Prevention of Bribery Ordinance provides that any public servant who, whether in Hong Kong or elsewhere, without lawful authority or reasonable excuse, solicits or accepts any advantage as an inducement to or reward for or otherwise on account of his:

- performing or abstaining from performing, or having performed or abstained from performing, any act in his capacity as a public servant; or
- expediting, delaying, hindering or preventing, or having expedited, delayed, hindered or prevented, the performance of an act, whether by himself or by any other public servant in his or that other public servant's capacity as a public servant; or
- assisting, favouring, hindering or delaying, or having assisted, favoured, hindered or delayed, any person in the transaction of any business with a public body,

shall be guilty of an offence.

The person who offers such an advantage also commits an offence.

1.2 An office holder of a public body listed in the Schedules to the Prevention of Bribery Ordinance or a member of any council, board, committee or other body of the public body which is vested with responsibilities for the conduct or management of the affairs of that public body will be recognised as “public servants” for the purposes of the prohibition in Section 4 of the Prevention of Bribery Ordinance. The solicitation or acceptance of any advantage given on account of any act performed by a public servant in his public capacity may render him liable to prosecution under Section 4 of the Prevention of Bribery Ordinance.

1.3 HKEx and certain of its principal subsidiaries, namely, SEHK, HKFE, HKSCC, SEOCH, and HKCC are each a public body listed in the Schedules to the Prevention of Bribery Ordinance. Directors and committee members of these companies (collectively hereinafter within this chapter known as the “Members”) are therefore regarded “public servants” for the purposes of Section 4 of the Prevention of Bribery Ordinance. The purpose of these Guidelines on Conduct (the “HKEx Guidelines”) is to provide guidance to Members in situations where advantages may be solicited, offered or accepted.

However, it is the responsibility of each Member to ensure that he complies with the letter and spirit of the Prevention of Bribery Ordinance. Members should note that the HKEx Guidelines do not bind the Independent Commission Against Corruption or the Department of Justice with whom the decision to investigate and prosecute lies. Ultimately, the decision as to whether an offence has been committed is a matter for the courts. For the avoidance of doubt, HKEx does not, by virtue of issuing the HKEx Guidelines, give any advice or assume any responsibility to any person for any proceedings that may be brought under the Prevention of Bribery Ordinance or any other ordinance.

1.4 As a general principle, if the acceptance of an advantage may be perceived to have an influence on a Member's performance of his public functions, he should decline to accept. If acceptance could lead to questions or complaints of bias, favouritism or impropriety, the Member should also decline to accept. A Member could consider accepting an advantage that is offered only if:

- it is not on account of his performing or not performing a particular act in his capacity as a Member;
- he will not feel obliged to do something in return for the offeror; and
- he is able to openly discuss the acceptance without reservation.

1.5 Entertainment as defined in the Prevention of Bribery Ordinance is not an advantage for the purposes of that ordinance. The definition is reproduced in the Annexure. However, this does not mean that a Member is free to accept lavish, or unreasonably generous or frequent entertainment, or indeed any entertainment that is likely to lead to the embarrassment of the Member in the discharge of his official functions or to bring the Member or HKEx or its subsidiaries into disrepute or lead to any real or apparent conflict of interests.

1.6 Members are advised that "advantages" include, but are not limited to -

- gifts, both of money and in kind;
- discounts (includes vouchers or coupons expressed to have monetary value in exchange for which goods to that value may be obtained and also includes goods so obtained);
- loans of money; and
- air, sea and overland passages.

The full definition given in the Prevention of Bribery Ordinance is reproduced in the Annexure.

2.0 DECLARATION OF ADVANTAGE

- 2.1 In respect of **any advantage above the value of HK\$5,000** which a Member, subject to the provisions of paragraph 1.4 above, may wish to accept or has accepted from persons who have or who may potentially have business dealings with HKEx or its subsidiaries, the Member must make a declaration to HKEx's Chairman or Chief Executive. Where the Member making the declaration is HKEx's Chairman, he shall, in these circumstances, make such declaration to the Board.
- 2.2 The declaration form should be sent to the Company Secretary of HKEx, who shall arrange for HKEx Chairman's or Chief Executive's acknowledgement as appropriate. A register of such declarations will be maintained and shall be open to inspection by any HKEx's Director.
- 2.3 Any Member who solicits or accepts any advantage where this could lead, or had led, to a real or apparent conflict of interests between his private concerns and his official duties or position may be liable under the Prevention of Bribery Ordinance.

3.0 DECLARATION OF INTERESTS

- 3.1 To protect HKEx's interests and reputation, and those of the Directors and committee members of companies within the Group, Directors and committee members are required to declare at all times the nature and extent of any conflict of interests, whether direct or indirect, or whether actual or potential, in relation to their private concerns and shall take such action as is necessary in order to ensure that they do not take any part whatsoever in any HKEx's business in relation to which they may have such a conflict of interests. In particular, they shall, notwithstanding the declarations of advantage made under paragraph 2.1 or paragraph 3.3 below on directors' interests, make the relevant declaration at each meeting at which such business is discussed. If required to do so by the relevant board or committee, they shall withdraw from the meeting of the board or any of its committees before any discussion on such matters commences. Directors and committee members having such a conflict of interests shall return all relevant papers to the relevant secretary of the board or committee as soon as they become aware of the conflict.
- 3.2 Members shall also refer to the articles of association of the relevant company or terms of reference of the relevant board or committee for the details in determining whether a Director may vote and be counted in a quorum in respect of any resolution concerning contracts or arrangements where a Director has/may have interests in.

3.3 Upon appointment, each Director¹ shall complete the Initial Declaration of Interest in respect of:

- (a) all directorships and offices held by them in companies or other entities, whether formed in Hong Kong or overseas, and other significant commitments; and
- (b) their interests in any corporation, whether formed in Hong Kong or overseas, when such interests are 10% or more of that corporation's issued share capital. Where the company is a company listed on SEHK, a declaration should be made when the Director's interests are 5% or more of its issued share capital.

The Initial Declaration of Interest and the Notification of Changes to Initial Declaration of Interest should be sent to the Company Secretary of HKEx, who shall arrange for HKEx Chairman's or Chief Executive's acknowledgement as appropriate. In case if the declaration is made by HKEx's Chairman, he shall make such declarations to the Board. A register of Directors' declarations will be maintained and shall be open to inspection by any HKEx's Director.

The Director shall notify HKEx immediately upon he becomes aware of subsequent new appointment or new interests or changes in the Initial Declaration of Interest, by completing the Notification of Changes to Initial Declaration of Interest.

3.4 Moreover, a declaration is required if a Director¹ or, to his knowledge, a member of his immediate family, has (or in aggregate, have) a shareholding or economic interests of 5% or more in companies or other entities which have or will have dealings with HKEx or its subsidiaries. Moreover, where a company in which a Director and any of his associate in aggregate own 5% or more is materially interested in a contract, he also shall be deemed materially interested in that contract, the Director should withdraw from any consideration of the matter or any participation in HKEx decision on such matter.

Members shall make such declaration by using the initial declaration form upon appointment, or declaration form for notifying subsequent changes, where appropriate.

3.5 In order to facilitate the open exchange of true views between the Directors and committee members of HKEx and its subsidiaries and for the proper conduct of the business at hand, it is essential for the board and committee proceedings to be conducted on the basis that all papers and discussions are confidential unless it is clearly stated otherwise. All Directors and committee members shall treat all papers which they receive in their capacity as such and all discussions at board and committee meetings as confidential and shall not

¹ For the paragraphs 3.3 and 3.4, the declaration requirements also apply to committee members of HKEx, and members of the Main Board and GEM listing committees of the SEHK, to which SEHK's board has delegated all its powers and functions in respect of all listing matters.

disclose them, their contents or the gist of their contents to anyone outside of the board or committee, as the case may be, unless expressly authorised by the board or the committee to do so.

- 3.6 All Directors and committee members shall not use for the benefit of themselves, or any other person any confidential information that may come into their knowledge by virtue of their membership of any board, committees or working group by whatever name called, nor take advantage for the benefit of themselves, or for any other person, of opportunities which should be taken for the benefit of HKEx.
- 3.7 A Director or committee member who fails to make the declaration of a conflict of interests required under these HKEx Guidelines or who is in violation of the duties of confidentiality imposed shall be liable to account to HKEx for any profit made or benefit received from or in respect of such failure or violation.
- 3.8 A Director or committee member can be regarded as having a conflict of interests where the company or firm he is associated with derives a financial benefit from his being a Director or committee member. Therefore, a Director and committee member is required at all times to declare such conflict and, if so required by the relevant board or committee, to withdraw from any consideration of a matter in which the member may have an interest unless the relevant interest is permitted in the relevant company's Articles of Association.
- 3.9 A Director or committee member who, in his professional capacity, advises a company, firm or individual on any dealing with HKEx or its subsidiaries, including but without limitation the award, by tender or otherwise, of a contract or concession, should declare an interest and, if so required by HKEx or any companies within the Group, withdraw from any consideration of the matter or any participation in the decision on entering into such dealing.
- 3.10 A Director or committee member who is a director or employee of a company, or a partner in or proprietor of a firm, which proposes to have any dealing with HKEx or its subsidiaries, including but without limitation tendering for any contract or concession, should declare an interest and, if so required by HKEx or any companies within the Group, withdraw from any consideration of the matter or any participation in the decision on entering into such dealing.
- 3.11 The HKEx Guidelines are drafted to cover, as far as possible, a wide range of likely scenarios. Prudence dictates that if any Director and committee member is uncertain as to whether a particular transaction, act or omission falls within their terms, he should consult his own professional advisors. The HKEx Guidelines do not in any way replace the duties and obligations that a person has to fulfill under any laws, rules, codes of conduct or guidelines issued by the relevant companies and authorities to whom they are subject to. To the extent that the HKEx Guidelines impose less stringent obligations than any relevant law, regulations, codes and rules which apply to the same transaction, conduct, act or omission, the more stringent standard should be observed.

- 3.12 Part XIII and Part XIV of the SFO prohibit persons from using inside information to deal in securities or their derivatives. Directors and committee members of HKEx and its subsidiaries should take special precaution to comply with the relevant provisions of the SFO.

Directors and committee members of HKEx and its subsidiaries shall refer to **Chapter 5** of this Handbook where restrictions on securities dealing are broadly discussed.

1.0 SUMMARY OF THE KEY PROVISIONS OF THE PREVENTION OF BRIBERY ORDINANCE (CAP. 201)

Please note: This summary is provided for reference only. It is the responsibility of each Member of HKEx to familiarize himself with the provisions of the Prevention of Bribery Ordinance and to ensure that he complies with the letter and spirit of the law. Members should refer to the primary source of the Prevention of Bribery Ordinance as set out in Chapter 201 of the Laws of Hong Kong and, if necessary, seek professional legal advice.

- 1.1 HKEx, SEHK, HKFE, HKSCC, SECH and HKCC are each a public body listed in Schedules 1 and 2 to the Prevention of Bribery Ordinance (Chapter 201 of Laws of Hong Kong), and directors and committee members of these companies are regarded as public servants to be governed by the Prevention of Bribery Ordinance.
- 1.2 Section 4 provides that it is an offence for a public servant to solicit or accept, without lawful authority or reasonable excuse, any advantage as an inducement to or reward for or otherwise on account of his:
 - (a) performing or abstaining from performing, or having performed or abstained from performing, any act in his capacity as a public servant;
 - (b) expediting, delaying, hindering or preventing, or having expedited, delayed, hindered or prevented, the performance of an act, whether by himself or by any other public servant in his or that other public servant's capacity as a public servant; or
 - (c) assisting, favouring, hindering or delaying, or having assisted, favoured, hindered or delayed, any person in the transaction of any business with a public body.

The person who offers such an advantage also commits an offence.

- 1.3 Sections 5 – 7 prohibit the bribing of public servants in relation to certain specific dealings with public bodies, namely, contracts, tenders and auctions.
- 1.4 Section 8(2) provides that any person who, without lawful authority or reasonable excuse, while having dealings of any kind with a public body, offers any advantage to any public servant employed by that public body shall be guilty of an offence.
- 1.5 An office holder of the public body or a member of any council, board, committee or other body of the public body which is vested with responsibilities for the conduct or management of the affairs of the public body will be recognised as a “public servant” for the purposes of the prohibition in Section 4 of the Prevention of Bribery Ordinance.

- 1.6 Section 12 provides that an offence under Section 4 is punishable on indictment to a fine of HK\$500,000 and to imprisonment for 7 years, and as a summary offence, to a fine of HK\$100,000 and to imprisonment for 3 years.

2.0 DEFINITIONS

- 2.1 Key definitions under the Prevention of Bribery Ordinance:

Section 2:

“**Advantage**” means:

- (a) any gift, loan, fee, reward or commission consisting of money or of any valuable security or of other property or interest in property of any description;
- (b) any office, employment or contract;
- (c) any payment, release, discharge or liquidation of any loan, obligation or other liability, whether in whole or in part;
- (d) any other service, or favour (other than entertainment), including protection from any penalty or disability incurred or apprehended or from any action or proceedings of a disciplinary, civil or criminal nature, whether or not already instituted;
- (e) the exercise or forbearance from the exercise of any right or any power or duty; and
- (f) any offer, undertaking or promise, whether conditional or unconditional, of any advantage within the meaning of any of the preceding paragraphs (a), (b), (c), (d) and (e),

but does not include an election donation within the meaning of the Elections (Corrupt and Illegal Conduct) Ordinance (Cap 554), particulars of which are included in an election return in accordance with that ordinance; (Amended 33 of 1991 s. 2; 10 of 2000 s. 47)

“**Entertainment**” means the provision of food or drink, for consumption on the occasion when it is provided, and of any other entertainment connected with, or provided at the same time as, such provisions;

“**Public body**” means:

- (a) the Government;
- (b) the Executive Council;
- (c) the Legislative Council;

(d) (Repealed 78 of 1999 s. 7)

(da) any District Council; (Added 42 of 1981 s. 27. Amended 8 of 1999 s. 89)

(db) (Repealed 78 of 1999 s. 7)

(e) any board, commission, committee or other body, whether paid or unpaid, appointed by or on behalf of the Chief Executive or the Chief Executive in Council; and (Amended 1 of 2003 s. 3)

(f) any board, commission, committee or other body specified in Schedule 1; (Amended 20 of 1999 s. 2)

“Public servant” means any Government servant and also any employee of a public body and - (Amended 48 of 1996 s. 2; 14 of 2003 s. 13)

(a) in the case of a public body other than a body referred to in paragraph (aa), (b) or (c) of this definition, any member of the public body; (Amended 20 of 1999 s. 2)

(aa) in the case of a public body specified in Schedule 2 -

(i) an office holder of the public body (other than an honorary office holder);

(ii) any member of any council, board, committee or other body of the public body which is vested with any responsibility for the conduct or management of the affairs of the public body; (Added 20 of 1999 s. 2)

(b) in the case of a public body which is a club or association, any member of the public body who -

(i) is an office holder of the body (other than an honorary office holder); or

(ii) is vested with any responsibility for the conduct or management of its affairs;

(c) in the case of a public body which is an educational institution established or continued in being by an Ordinance, any officer of the institution and, subject to subsection (3), any member of any council, board, committee or other body of the institution, which is itself a public body, or which -

(i) is established by or under the Ordinance relating to the institution;

- (ii) is vested with any responsibility for the conduct or management of the affairs of the institution (not being affairs of a purely social, recreational or cultural nature); and
- (iii) is not excluded under subsection (3), whether the employee, officer or member is temporary or permanent and whether paid or unpaid, but -
 - (A) the holding of a share by a person in a company which is a public body; or
 - (B) the entitlement of a person to vote at meetings of a club or association which is a public body,shall not of itself constitute that person a public servant.

2.2 Section 24:

In any proceedings against a person for an offence under the Prevention of Bribery Ordinance, the burden of proving a defence of lawful authority or reasonable excuse shall lie upon the accused.

2.3 HKEx, SEHK, HKFE, HKSCC, SEOCH, and HKCC are named public bodies under Schedules 1 and 2 to the Prevention of Bribery Ordinance.

2.4 The definition of “**a member of his immediate family**” is not extracted from the Prevention of Bribery Ordinance. It is derived from the definition of “relation” in Cap. 201 which governs the acceptance of advantages by Government servants. The scope of “immediate family member” is narrower than the statutory definition of “relation”.

For the purpose of the HKEx Guidelines, **immediate family member** means:

- (a) spouse (including a concubine);
- (b) any person with whom the public servant is living in a regular union as if man and wife;
- (c) parent;
- (d) child, ward of court;
- (e) brother, sister.

Chapter 5

RESTRICTIONS ON SECURITIES DEALINGS

1.0 INTRODUCTION

Part XIII, XIV and XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) lay down the restrictions on securities dealing and the reporting requirements by Directors.

The key provisions of the SFO relating to restrictions on dealing in securities and the reporting requirements by Directors and the Model Code are summarised herein below.

2.0 THE SECURITIES AND FUTURES ORDINANCE

2.1 The SFO has consolidated, updated and amended 10 ordinances which include the then Securities (Insider Dealing) Ordinance and the Securities (Disclosure of Interests) Ordinance. Part XIII and Part XIV of the SFO are relating to the prohibition of insider dealing. In essence, those persons who are **“connected with”** a listed company must not deal in the listed securities of that company (or warrants, options and other rights, whether themselves listed or not, which are derivatives of such securities) if they have **“inside information”** about that company, being specific information which is not generally known to the public but which, if it were known to it, would likely affect the price of those securities materially. It applies to both on and off-market dealings.

2.2 A person **“connected with”** a listed company for these purposes is very widely defined, and will include, *inter alia*, a director of the listed company. Connected persons also include anyone with access to inside information due to his being connected with another company where the inside information relates to a transaction involving both of those companies or involving one of them and the listed securities of the other (or their derivatives), or to the fact that the relevant transaction is no longer contemplated. A person is also connected with a company if he was connected at any time within the six months preceding the dealing. A company is deemed to be connected with another company if any of its directors or employees is connected with that company.

Insider dealing also takes place when a connected person passes on inside information to other persons or counsels or procures others to deal in such securities (or their derivatives), knowing or having reasonable cause to believe that the other person will deal in a company’s securities (or their derivatives). It is also an insider dealing where a person who knowingly receives inside information directly or indirectly from a connected person deals in relevant securities (or their derivatives) or counsels or procures another person to do so.

- 2.3 A person who becomes an HKEx's Director or Chief Executive and at the time when he does so is interested in shares in or debenture of HKEx or any associated corporation has a duty under Part XV of the SFO to notify the Company Secretary of HKEx and the SFC in writing,
- of the subsistence of his interests in shares arising under all types of equity derivatives including cash-settled derivatives, interests in un-issued shares and short positions at that time;
 - of the number of shares of HKEx or associated corporation in which each interest of his subsists at that time; and
 - of the consideration payable and receivable whether on or off-exchange.

Associated corporation of HKEx means a corporation which is a subsidiary or holding company of HKEx or a subsidiary of HKEx's holding company or (not being a subsidiary of HKEx) a corporation in which HKEx has more than one fifth of the nominal value of the issued shares of that corporation.

HKEx's Director shall use the DI form for making such disclosure.

- 2.4 For the purpose of publishing the quarterly, interim and annual reports, HKEx's Directors are each requested to disclose his interests on quarterly basis.
- 2.5 An HKEx's Director or Chief Executive is under a duty to notify HKEx's Company Secretary and the SFC in writing of the occurrence, while he is a Director or the Chief Executive, of any of the following events:
- (i) when he becomes, or ceases to be, interested in shares in or debentures of HKEx or any associated corporation of HKEx;
 - (ii) the entering into by him of a contract to sell any such shares or debentures;
 - (iii) the assignment by him of a right granted to him by HKEx to subscribe for shares in or debentures of HKEx;
 - (iv) the grant to him by an associated corporation of HKEx of a right to subscribe for shares in or debentures of that associated corporation, the exercise of such a right granted to him and the assignment by him of such a right so granted;
 - (v) when the nature of interest in shares in or debentures of HKEx or any associated corporation of HKEx, which has previously been notified, changes;
 - (vi) when a corporation becomes an associated corporation of HKEx where he is immediately after the event interested in shares in or debentures of or has short position in shares in the corporation;

- (vii) when he comes to have or ceases to have a short position in shares in HKEx or any associated corporation of HKEx; and
- (viii) when he becomes a Director or Chief Executive of HKEx and at that time he has an interest in shares in or debentures of, or has a short position in shares in, HKEx or any associated corporation of HKEx.

A notification made under (viii) is regarded as an “Initial Notification”.

- 2.6 Notification in all cases of events (i) to (vii) in paragraph 2.5 must be within the **next three business days** following the occurrence of the event giving rise to the notification obligation. The term "business day" means a day other than a public holiday, a Saturday and a day on which a black rainstorm warning or a gale warning is in force.

For an initial notification for event as specified in (viii) in paragraph 2.5, notification must be within the next 10 business days following the date of his appointment.

- 2.7 Notification includes:

all interests of an HKEx’s Director in any shares or debentures of HKEx or any associated corporation. Under the SFO, his interests also include the interests of:

- a spouse;
- infant children (under age of 18);
- a corporation whose directors are accustomed to act in accordance with his directions or instructions;
- a corporation in which he is entitled to exercise or controls the exercise of 1/3 or more of the voting power at general meetings of that corporation;
- a trust where the Director or any one of the above is a beneficiary;
- a discretionary trust where the Director had the trust set up or put assets into it and can influence how the trustee exercises his discretion;
- a trust where the Director is a trustee; and
- an agreement in which the Director is a party who has agreed to acquire interests in shares in HKEx.

HKEx’s Director shall also use the DI form for making such disclosure.

2.8 A person

- who, without reasonable excuse, fails to make a disclosure within the specified period; or
- makes a statement which is false or misleading in a material particular and knows that, or is reckless as to whether, the statement is false or misleading in a material particular,

commits an offence and is liable on conviction on indictment to a fine up to HK\$100,000 and to imprisonment for two years; or on summary conviction to a fine up to HK\$10,000 and to imprisonment for six months.

3.0 THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

3.1 The Model Code contains restrictions on dealings (both on and off-market) by directors in a listed company's securities and sets a minimum standard of good practice against which listed companies should measure the equivalent restrictions which they are required to adopt.

3.2 All Directors are subject to the restrictions in dealings in HKEx's securities and reporting requirements under the Model Code, and upon their appointment, they are requested to declare to HKEx his interest, if any, in HKEx's securities.

HKEx's Director shall use the DI form and other Directors shall use the disclosure form for making such disclosure.

3.3 The key provisions of the Model Code are as follows:

- For the purpose of the Model Code, "dealing" includes, subject to certain exclusions as specified in paragraph 7(d) of the Model Code, (i) any acquisition, disposal or transfer of, or (ii) offer to acquire, dispose of or transfer, or (iii) creation of pledge, charge or any other security interest in, any securities of HKEx or any entity whose assets solely or substantially comprise securities of HKEx, and (iv) the grant, acceptance, acquisition, disposal, transfer, exercise or discharge of any option or other right or obligation to acquire, dispose of or transfer securities, or any interest in securities of HKEx or any such entity, in each case whether or not for consideration and any agreements to do any of the foregoing, and "deal" shall be construed accordingly. (Interpretation 7)
- The grant to a Director of an option to subscribe or purchase HKEx securities shall be regarded as a dealing by him, if the price at which such option may be exercised is fixed at the time of such grant. If the price is to be fixed at the time of exercise, the dealing is to be regarded as taking place at the time of exercise. (Interpretation 8)
- When a Director places investment funds under professional management, even where discretion is given, the managers must

nonetheless be made subject to the same restrictions and procedures as the Director himself. (Rule A7)

- Directors must not deal in the securities of HKEx at any time when he possesses inside information in relation to HKEx. (Rule A1)
- A Director must not deal in the securities of HKEx when by virtue of his position as a director of another listed companies, he possesses inside information in relation to those securities. (Rule A2)
- A Director must not, deal in any securities of HKEx on the day when its financial results are published and:
 - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarter or half-year period up to the publication date of the results,

unless the circumstances are exceptional, for example, there is a pressing financial commitment to be met under Rule C14, but he must comply with Rule B8 as stated herein below. (Rule A3)

- Restrictions on Directors apply equally to the Director's spouse or infant child (under age of 18) and any interested parties as defined in the SFO. (Rule A6)
- A Director must not deal in any securities of HKEx without first notifying in writing the Chairman, or in his absence, the Chief Executive, or failing him, any member of the Audit Committee, and receiving a dated written acknowledgement. As for the Chairman, he should first notify the Chief Executive, or in his absence, any member of the Audit Committee, and receive a dated written acknowledgement before dealing. In each case,
 - (i) a response to a request for clearance to deal must be given to the relevant Director within five business days of the request being made (in practice, the acknowledgement will be issued, as far as practicable, within the same day of the request); and
 - (ii) the clearance to deal must be valid for no longer than five business days of clearance being received.

(Rule B8)

- Any Director who acts as trustee of a trust should ensure that his co-trustees are aware of his capacity as a Director so as to enable them to anticipate possible difficulties. A Director having funds under management should likewise advise the investment manager. (Rule B10)

- A Director who is a beneficiary, but not a trustee should ensure that the trustees: (1) are aware that he is a director of HKEx and (2) notify him after they have dealt in the listed securities on behalf of the trust in order that the Director may in turn make the proper notifications. (Rule B11)
- Directors should jointly as a board and severally endeavour to ensure the employees of HKEx or directors or employees of a subsidiary company shall not deal in the listed securities when they are likely to possess inside information in relation to HKEx. (Rule B13)

3.4 According to provisions of the Model Code, HKEx is required to disclose in its interim reports and the Corporate Governance Report contained in its annual reports, having made specific enquiry to all Directors, whether its Directors have complied with, or committed any non-compliance with, the required standard set out in the Model Code.

Chapter 6 CONNECTED TRANSACTIONS

1.0 INTRODUCTION

Chapter 14A of the Listing Rules was introduced on 31 March 2004, which governs the disclosure of connected transactions. The key provisions are summarised below.

2.0 KEY DEFINITIONS

2.1 Connected transactions² include any transactions between HKEx or its subsidiaries (each a “Group Company”) and a connected person, and transactions with third parties that may confer benefits to connected persons through their interests in the entities involved in the transactions.

2.2 Under the Listing Rules, the definition of connected transactions³ is generally outlined as follows :

➤ Transactions with connected persons

Any transaction between a Group Company and a connected person is a connected transaction.

➤ Transactions with third parties

Any transaction between a Group Company and a person who is not a connected person and the transaction involves:

- (i) a Group Company buying and selling an interest in a company where a substantial shareholder of that target company is, or is proposed to be, a controller⁴ or is (or will, as a result of the transaction, become) an associate⁵ of the controller; or
- (ii) a Group Company buying an interest in a company (or an option to acquire such interest) of which a controller (or his associate) is, or will become, a shareholder where the interest being bought is (a) of a fixed income nature; (b) shares to be acquired on less favourable terms than those granted to the controller or his associate; or (c) shares which are of a different class from those held by, or to be granted to, the controller or his associate; or

² “connected transactions” are governed by Chapter 14A of the Listing Rules

³ Rule 14A.13 of the Listing Rules

⁴ “controller” means a director, chief executive or controlling shareholder (≥30%) of a Group Company

⁵ definition of “associate” is set out in Rules 1.01 and 14A.11(4) of the Listing Rules

- (iii) a controller (or his associate) subscribing on specially favourable terms shares in a company of which a Group Company is a shareholder; or
- (iv) a controller (or his associate) subscribing shares in a company of which a Group Company is a shareholder but which are of a different class from those held by the Group Company.

➤ Financial assistance⁶

- (i) the provision of financial assistance by a Group Company to, or to a Group Company by, (a) a connected person; or (b) a company in which both the Group Company and a connected person are shareholders and where any connected person(s) of HKEx (as defined under Rules 14A.11(1) to (4) of the Listing Rules) 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 company (“commonly held entity”); or
- (ii) a Group Company granting an indemnity or guarantee or providing financial assistance to and/or for the benefit of a connected person or a commonly held entity; or
- (iii) the granting of security over the assets of a Group Company in respect of any financial assistance made to the Group Company by a connected person or a commonly held entity.

➤ Options

The writing, acceptance, transfer, exercise or non-exercise of an option⁷ involving a Group Company and a connected person.

➤ Joint Ventures

The entering into of any arrangement or agreement involving the formation of a joint venture entity in any form, or any other form of joint arrangement by a Group Company and a connected person.

2.3 Connected person (in the context of non-PRC issuers) includes,

- (i) a director, chief executive or substantial shareholder⁸ of any Group Company;
- (ii) any person who was a director of any Group Company within the preceding 12 months;
- (iii) any associate of the persons as referred in (i) and (ii) above;

⁶ “financial assistance” includes granting credit, lending money, or providing indemnity, guarantee or security for a loan

⁷ “options” refer to those defined in Rule 14.72 of the Listing Rules which shall mean the rights, but not the obligation, to buy or sell something

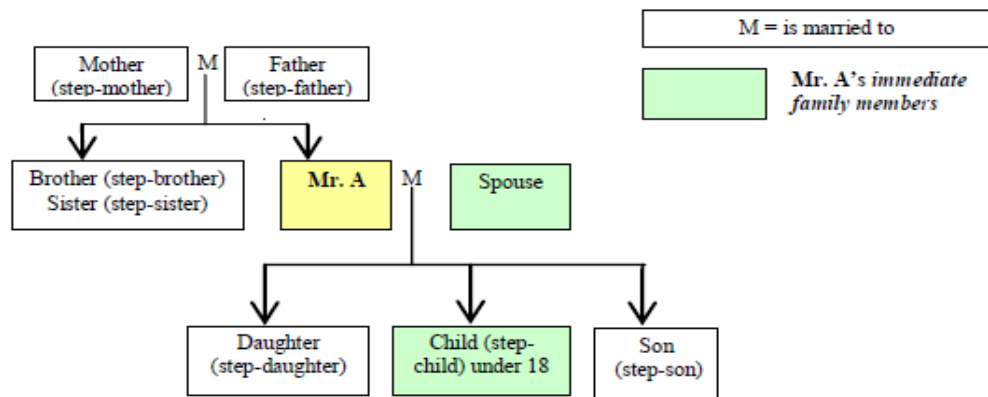
⁸ “substantial shareholder” in relation to a company means a person or an entity who/which is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of that company

- (iv) any non wholly-owned subsidiary of the Group where any connected person(s) of HKEx (other than at the level of its subsidiaries) as referred to in (i) to (iii) above 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, and any subsidiary of such non wholly-owned subsidiary.

Connected person does not include wholly-owned subsidiary of HKEx.

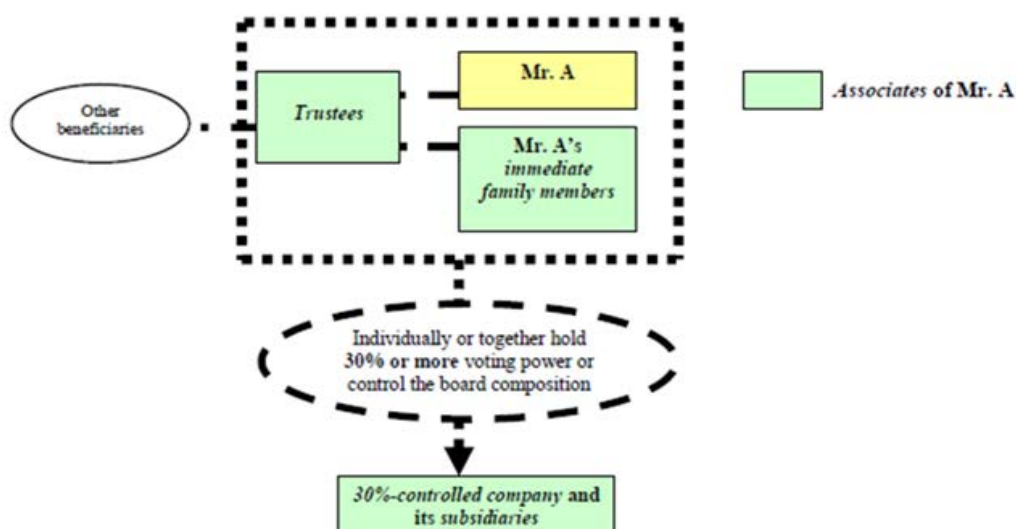
2.4 In general, “associate” of a connected person described in 2.3(i) and (ii) above who is an individual includes:

- (i) his spouse, his (or his spouse’s) child or step-child (natural or adopted) under the age of 18 years (each an “immediate family member”);



- (ii) the trustees, acting in their capacity as such trustees, of any trust of which he or any of his immediate family members is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object; and

- (iii) any company in the equity capital of which he, his immediate family members, and/or any of the trustees referred to in (ii) above, acting in their capacity as such trustees, taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary.

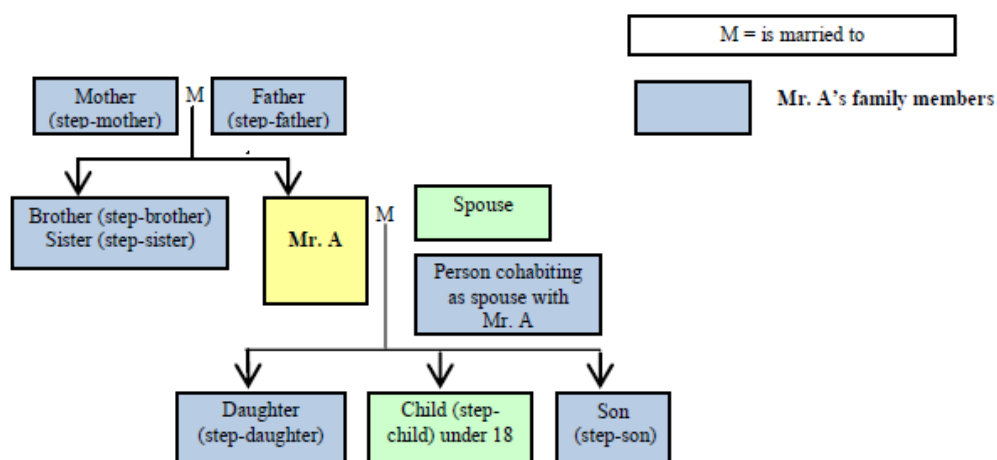


Insofar as a depository is acting in its capacity as a depository for depository receipts, it shall not be treated as an associate of holders of the depository receipts for the purpose of paragraph 2.3 merely by reason of the fact that it is holding the shares of an issuer for the benefit of the holders of the depository receipts.

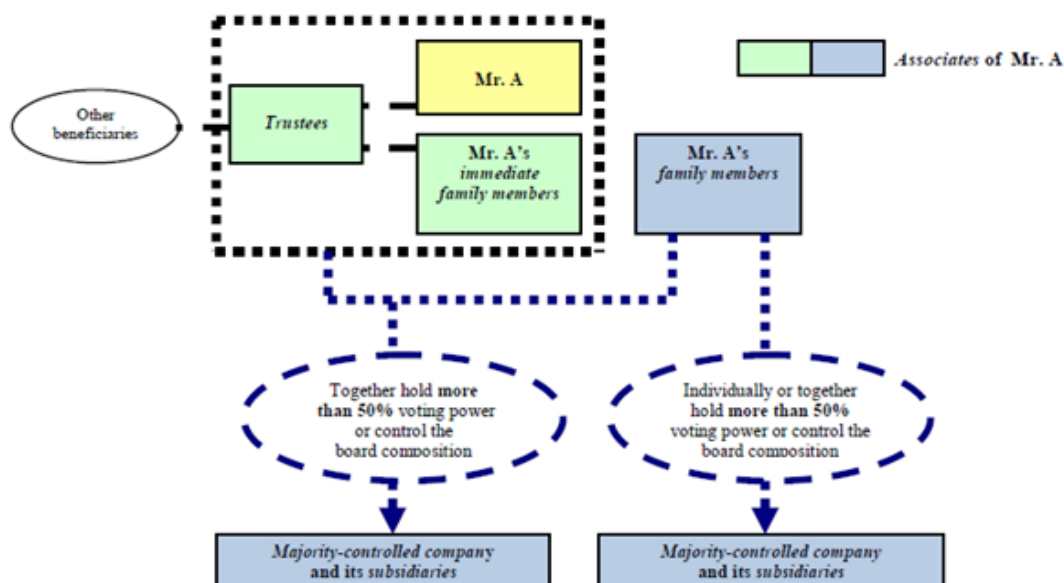
2.5 In addition to paragraph 2.4 above and for the purpose of connected transaction, definition of “associate” of a connected person described in 2.3(i) and (ii) above is extended to include:

- (i) any person or entity with whom such director, chief executive or substantial shareholder has entered, or proposes to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, with respect to the transaction which is such that, in the opinion of SEHK (in the case of HKEx, the SFC), that person or entity should be considered a connected person;

- (ii) any person cohabiting as a spouse, and any child, step-child, parent, step-parent, brother, sister, step-brother and step-sister (each a “family member”) of such director, chief executive or substantial shareholder;

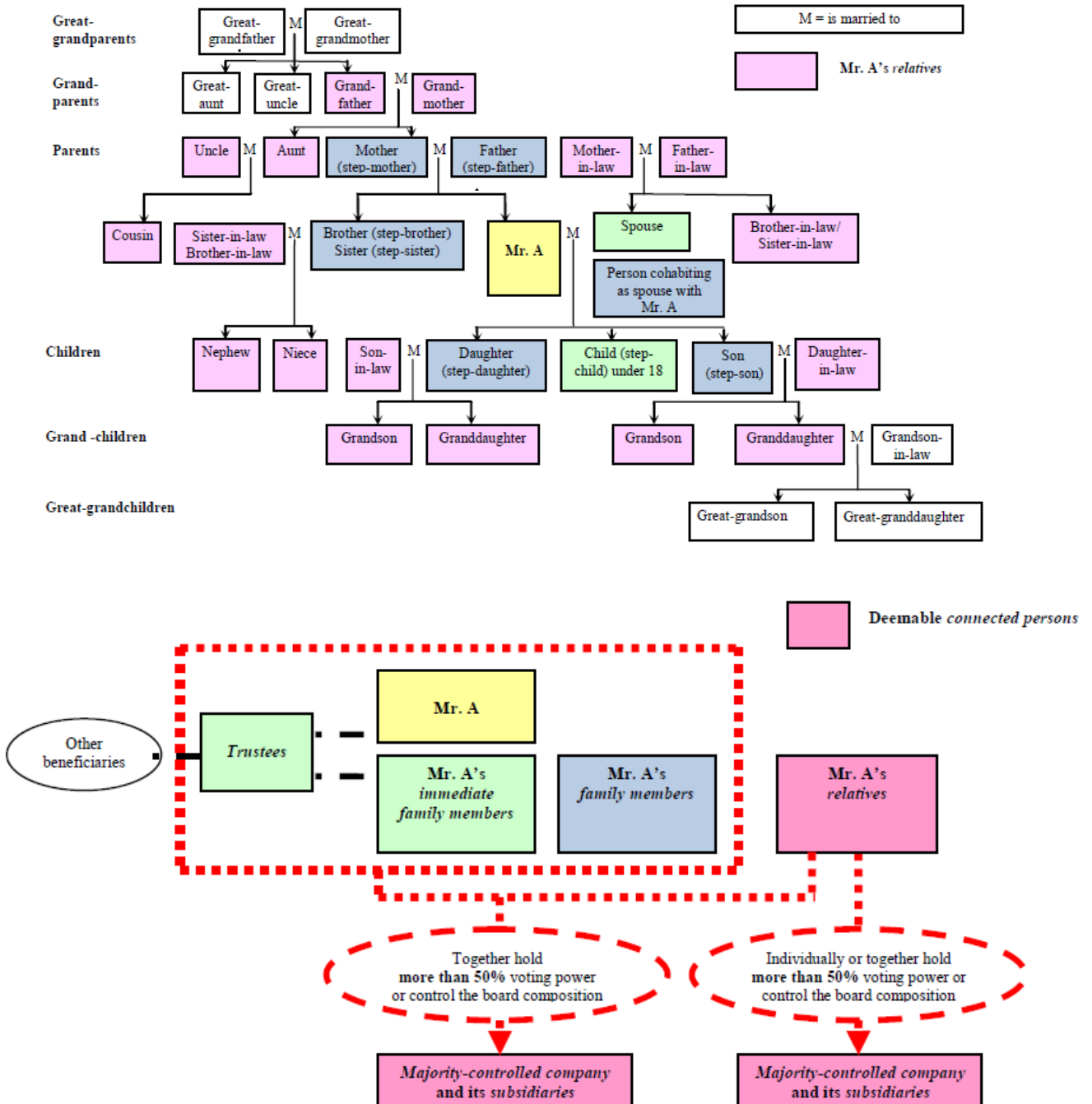


- (iii) a majority-controlled company⁹ held by the family members (individually or together), or held by the family members together with the individual, his immediate family members and/or trustees, or any of its subsidiaries; and



⁹ “majority-controlled company” means a company in which one can control more than 50% of the voting power at such company’s general meetings or the composition of a majority of the board of directors of such company. SEHK (in the case of HKEx, the SFC) may aggregate the interests of a director, chief executive or substantial shareholder of any Group Company, any person who was a director of any Group Company within the preceding 12 months, and his relatives in a company to determine whether they together have a majority control over such company.

- (iv) any 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 (each a “relative”) of such director, chief executive or substantial shareholder; and any majority-controlled company held by any of such relatives, whose association with such director, chief executive or substantial shareholder is such that, in the opinion of SEHK (in the case of HKEx, the SFC), the proposed transaction should be subject to the requirements of Chapter 14A of the Listing Rules.



3.0 WAIVERS FROM THE SFC ON CONNECTED TRANSACTIONS

3.1 The SFC had since 21 June 2000, granted waivers to HKEx from strict compliance with the Listing Rules (Chapter 14 which was revised as Chapter 14A with effect from 31 March 2004) in respect of certain on-going connected transactions of HKEx.

3.2 The “connected persons” as covered under the waivers are :

- Directors or associates of Directors of any member of the Group which are or may become Exchange Participants, Clearing Participants and/or holders of Trading Rights;
- associates of Directors of any member of the Group which are or may become listed companies on the SEHK or listing applicants; and
- Directors or associates of Directors of any member of the Group which are or may become “Buy-in Brokers” for and on behalf of HKSCC.

3.3 Activities conducted between the connected persons and the Group in its regulatory role regarding its operation of the respective exchanges and clearing houses under the applicable rules of the Group are not “transactions” for the purposes of the “connected transactions” requirements in Chapter 14A of the Listing Rules. Without limiting the generality of the foregoing, these activities include the disciplinary proceedings against them as Exchange Participants or Clearing Participants, and the vetting of announcements, circulars or other documents to be issued by the relevant connected persons as listed companies pursuant to the Listing Rules.

Whilst the regulatory type activities carried out by the Group on those relevant connected persons are not governed by the connected transaction rules in the Listing Rules, the Directors of any member of the Group are nonetheless required to observe the applicable rules and guidelines of the relevant Group company in dealing with potential or actual conflict of interest situations when such regulatory activities relate to associates of the relevant Directors of any member of the Group.

3.4 The following connected transactions (collectively referred as “Connected Transactions”) are waived from strict compliance with the connected transaction requirements in Chapter 14A of the Listing Rules:

- all transactions between a relevant connected person and the Group arising from or in connection with that person’s use, or proposed use, of (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing;
- all transactions between a relevant connected person and the Group arising from or in connection with that person’s listing, or proposed listing, of securities on a market maintained by the Group and all

services offered by the Group which are ancillary, incidental or otherwise related to the foregoing; and

- all transactions between a relevant connected person and the Group arising from or in connection with HKSCC arrangement on behalf of a Clearing Participant for (i) carrying out “buy-in” when a Clearing Participant fails to deliver securities on time for settlement under the Continuous Net Settlement (CNS) System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of defaulting Participant’s positions; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as “Buy-in Transactions”).

3.5 The waivers granted to HKEx under the SFC’s letter of 21 June 2000, which subsequently reaffirmed under the SFC’s letters dated 21 June 2002, 27 March 2003, 20 October 2004, 30 September 2008, 23 September 2009 and 19 January 2012 in response to changes in arrangement concerning Buy-in Transactions as well as the Listing Rules’ amendments on continuing connected transactions, shall remain valid and effective and the Connected Transactions shall be exempted from the requirements of Chapter 14A of the Listing Rules in relation to the continuing connected transactions, subject to the conditions that:

- (a) (i) the Connected Transactions are entered into in the ordinary and usual course of business of the Group and on normal commercial terms or on terms no more favourable than terms available to independent third parties;
 - (ii) the Connected Transactions other than Buy-in Transactions are conducted in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern these transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
 - (iii) the Connected Transactions which are Buy-in Transactions are conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers and at the mutually agreed commission rate payable by HKSCC in respect of all such Buy-in Transactions generally; and
 - (iv) the Connected Transactions are in the opinion of the Directors fair and reasonable so far as the shareholders of HKEx are concerned and in the interests of the shareholders of HKEx as a whole.
- (b) for Connected Transactions other than Buy-in Transactions, the details set out in Rules 14A.45 to 14A.46 of the Listing Rules shall be disclosed in HKEx’s subsequent annual reports provided however that the dates and the total consideration of the transactions need not be disclosed but instead there should be disclosure of the period during which the transactions were conducted;

- (c) for the Connected Transactions that are Buy-in Transactions, the details set out in Rules 14A.45 to 14A.46 of the Listing Rules shall be disclosed in HKEx's subsequent annual reports provided however that the dates of the transactions need not be disclosed but instead there should be disclosure of the period during which the transactions were conducted; and
- (d) HKEx would give the SFC prior notice of any proposed change in its procedures concerning the Buy-in Transactions or its terms with Buy-in Brokers generally or with connected Buy-in Brokers specifically. Pending an agreement being reached with the SFC as to the appropriate treatment of Buy-in Transactions following any such change, HKEx shall procure that no company within the Group shall enter into any such transactions with the connected persons.

For the avoidance of doubt, the annual review requirements in Rules 14A.37 to 14A.41 of the Listing Rules must be complied with in relation to the Connected Transactions.

- 3.6 To enable HKEx to comply with the disclosure requirements of the Listing Rules, a Director is requested to complete the Initial Disclosure regarding Connected Transactions upon his appointment and deliver it to the Company Secretary as soon as possible. In the event that he is aware of any transaction that may constitute or constitutes a connected transaction of HKEx as a result of his appointment as a Director, he shall inform the Company Secretary immediately. To meet the disclosure requirement in relation to paragraph 3.7 above, Directors are also requested to complete the Annual Confirmation on Connected Transactions.

Chapter 7

CORPORATE GOVERNANCE CODE

1.0 INTRODUCTION

The Code sets out the principles of good corporate governance, and two levels of recommendations (i) code provisions; and (ii) recommended best practices. Issuers are expected to comply with, but may choose to deviate from, the code provisions. The recommended best practices are for guidance only. Issuers must state whether they have complied with the code provisions for the relevant accounting period in their interim reports and annual reports. Where an issuer deviates from the code provisions, it must give considered reasons in its interim and annual report. Issuers are encouraged, but not required, to state whether they have complied with the recommended best practices and give considered reasons for any deviation.

- 1.1 For the purpose of the Code, the provisions about the Board, Chairman, Director(s), Chief Executive and Committee(s) are applicable to that of HKEx.

2.0 KEY PROVISIONS

The principles of good corporate governance and relevant code provisions are delineated in the Code under six sections and are categorised as follows:-

Section A: Directors

- A.1 – The Board
- A.2 – Chairman and Chief Executive
- A.3 – Board composition
- A.4 – Appointments, re-election and removal
- A.5 – Nomination Committee
- A.6 – Responsibilities of directors
- A.7 – Supply of and access to information

Section B: Remuneration of Directors and Senior Management and Board Evaluation

- B.1 – The level and make-up of remuneration and disclosure

Section C: Accountability and Audit

- C.1 – Financial reporting
- C.2 – Internal controls
- C.3 – Audit Committee

Section D: Delegation by the Board

- D.1 – Management functions
- D.2 – Board Committees
- D.3 – Corporate Governance Functions

Section E: Communication with Shareholders

E.1 – Effective communication

E.2 – Voting by Poll

Section F: Company Secretary

Certain key principles and code provisions are set out below:

A. Directors

- The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.
- Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend, an agenda and accompanying board papers should be sent in full at least 3 days before the date of the meeting.
- Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and should be open for inspection at any reasonable time on reasonable notice by any director.
- Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed.
- There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.
- An issuer should arrange appropriate insurance cover in respect of legal action against its directors.
- The role of chairman and chief executive should be separate and should not be performed by the same individual.
- The chairman should provide leadership for the board and ensure the board works effectively and performs its responsibilities.
- The chairman should take primary responsibility for ensuring that good corporate governance practices and procedures are established.
- The chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.
- The board should have a balance of skills and experience appropriate for the requirements of the issuer's business.

- There should be a formal, considered and transparent procedure for the appointment of new directors to the board.
- All directors should be subject to re-election at regular intervals.
- A non-executive director serving more than 9 years could be relevant to the determination of his independence, his further appointment shall be subject to a separate resolution by shareholders, and issuers should explain why the board considers he remains independent.
- A nomination committee should be set up, with specific written terms of reference which include, inter alia, to: review the structure, size and composition of the board at least annually to complement the issuers corporate strategy; identify individuals suitably qualified to become board members; assess the independence of INEDs; and make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.
- Each director must always know his responsibilities as a director of an issuer and its conduct, business activities and development; and should participate in continuous professional development to develop and refresh their knowledge and skills. Directors should provide a record of the training they received to the issuer.

B. Remuneration of Directors and Senior Management and Board Evaluation

- The remuneration committee's written terms of reference should include, inter alia, to: make recommendations to the board on the issuer's policy and structure for all directors' and senior management remuneration, and on the establishment of a formal and transparent procedure for developing remuneration policy.

C. Accountability and Audit

- Management should provide the board members with monthly updates giving a balanced and understandable assessment of the issuer's performance.
- The board should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts.
- The board should include in the annual report an explanation of the basis on which the issuer generates or preserves value over the longer term and the strategy for delivering the issuer's objectives.
- The board should at least annually conduct a review of the effectiveness of the issuer's and its subsidiaries' internal control

systems, and report in the Corporate Governance Report. The annual review should, in particular, include a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function.

- The audit committee's written terms of reference should include, inter alia, to: monitor the relationship with the issuer's auditors; review the issuer's financial information; oversee the issuer's financial reporting system and internal control procedures; review arrangements for employees to raise concerns about possible improprieties; and consider any other matters as delegated to it by the board.

D. Delegation by the Board

- The nomination committee, remuneration committee and audit committee should make available their terms of reference on SEHK's website and the issuer's website.
- An issuer should formalise the functions reserved to the board and those delegated to management, and should review those arrangements periodically to ensure that they remain appropriate to the issuer's needs.
- All board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.
- The board (or a committee or committees formed by the board with delegated responsibilities) should be responsible for performing the corporate governance duties and its terms of reference should include, inter alia, to: develop and review an issuer's policies and practices on corporate governance and compliance with legal and regulatory requirements; review and monitor the training and continuous professional development of directors and senior management; develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and review the issuer's compliance with the Code and disclosure in the Corporate Governance Report.

E. Communication with Shareholders

- The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.

3.0 CORPORATE GOVERNANCE REPORT

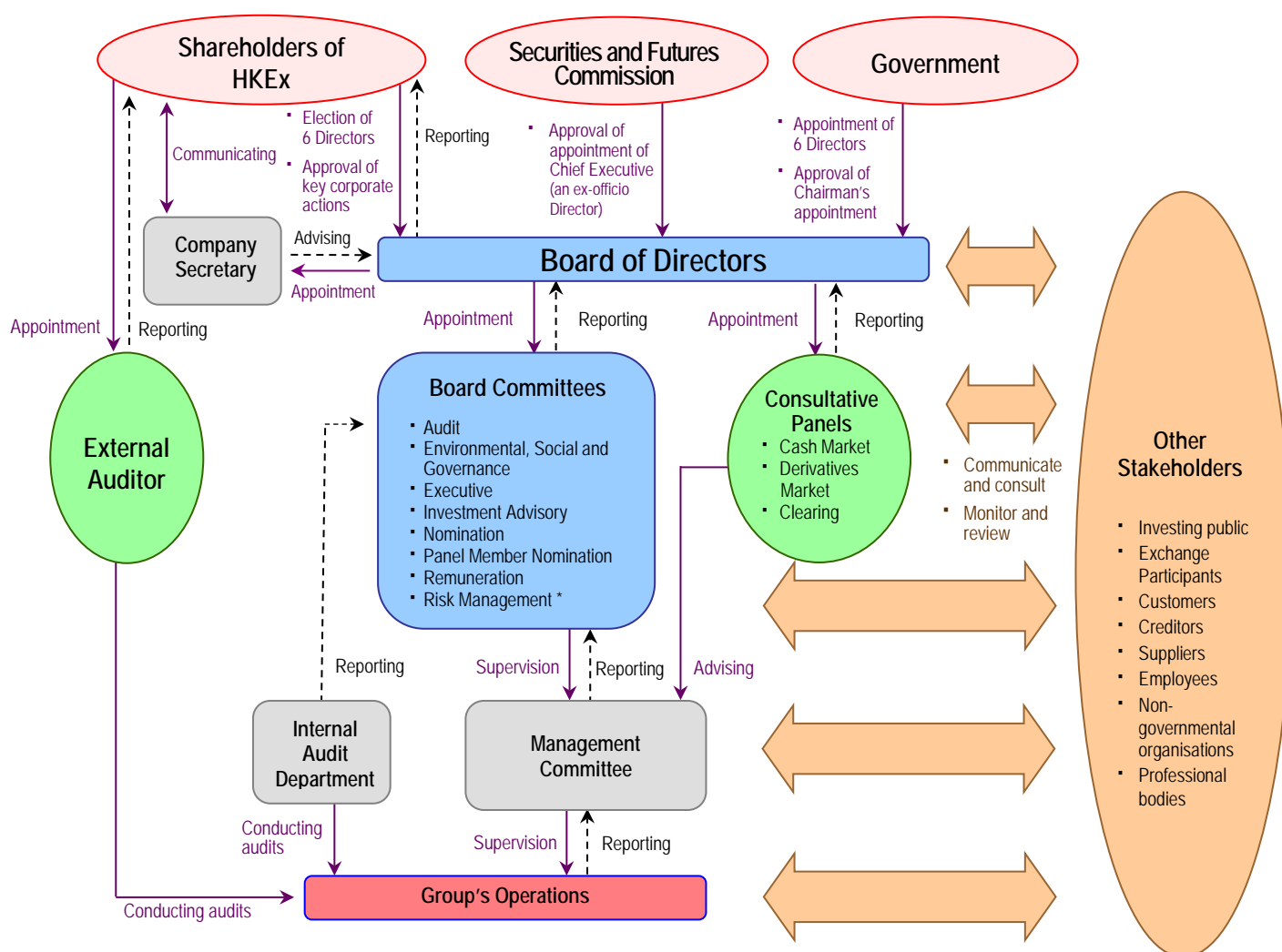
Issuers are required to include a report on corporate governance practices (the “Corporate Governance Report”) prepared by the board of directors in their annual reports according to Appendix 14 to the Listing Rules. The Corporate Governance Report shall contain all the information set out in paragraphs G to P (mandatory disclosure requirements) of the Appendix. Any failure to do so will be regarded as a breach of the Listing Rules. Issuers are also encouraged to disclose information set out in paragraphs Q to T (recommended disclosures) of the Appendix in their Corporate Governance Report.

Chapter 8 GOVERNANCE STRUCTURE

1.0 GOVERNANCE STRUCTURE

1.1 The overall governance structure of HKEx is summarised below:

Corporate Governance Structure



* A statutory committee incorporated under Section 65 of the SFO and consists of no more than 2 members appointed by HKEx and 3 to 5 members appointed by the Financial Secretary of Hong Kong.

Note: The regulatory function of the Stock Exchange assumed by HKEx's Listing Division is separate from and independent of HKEx's income-generating business operations. In order to maintain impartiality, the regulatory function is supervised by Listing Committee and GEM Listing Committee which are totally independent of the Board.

1.2 The Board is responsible for shaping and decision-making of the Group's policies, while the Executive Committee and the Management Committee of HKEx carry out daily management responsibilities. The key functions, composition and operating mode of these governing bodies of HKEx are summarised in the table below:

	Key functions	Composition	Operating mode
Board of Directors	<ul style="list-style-type: none"> ➤ To shape policies for HKEx on major strategic, financial, regulatory, risk management, commercial and operational issues. 	<ul style="list-style-type: none"> ➤ Chairman ➤ Chief Executive ➤ 11 Directors 	<ul style="list-style-type: none"> ➤ Regular meeting (normally twice quarterly)
Executive Committee	<ul style="list-style-type: none"> ➤ To monitor and review policies in relation to the launch of new products/services by the Group and the implementation of such policies. ➤ To oversee the Group's compliance with the Memoranda and Articles of Association. ➤ To review and recommend amendments to the Group's rules and regulations (save and except the Main Board Listing Rules and the GEM Listing Rules) for submission to the SFC for its approval. 	<ul style="list-style-type: none"> ➤ Chairman ➤ Chief Executive ➤ 3 Directors 	<ul style="list-style-type: none"> ➤ meet if needed but no less than quarterly
Management Committee	<ul style="list-style-type: none"> ➤ To oversee and make recommendations to the Board as to HKEx's business, including strategic plan, annual operating plan and budgets. ➤ To oversee and make recommendations to the Executive Committee as to the policies of major new services and products in new asset classes. ➤ To approve HKEx's operating and capital expenditures in accordance with the Expense Approval Guide. ➤ To oversee the Group's compliance with all statutory duties. 	<ul style="list-style-type: none"> ➤ Chief Executive ➤ Chief Executive of the LME ➤ Chief Financial Officer ➤ Chief Operating Officer ➤ Chief Regulatory Officer ➤ Co-heads of Equities and FIC business ➤ Co-heads of Global Markets ➤ Co-heads of Information Technology ➤ Deputy Chief Executive of the LME ➤ Head of Global Clearing ➤ Head of Legal Services and Chief Counsel ➤ Head of Mainland Development ➤ Head of Risk Management 	<ul style="list-style-type: none"> ➤ Bimonthly meeting

1.3 Advisory Committees include the Audit Committee, Environmental, Social and Governance Committee, Investment Advisory Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, and Panel Member Nomination Committee.

1.3.1 Audit Committee

The Audit Committee reviews with management the accounting principles and practices adopted by the Group, and discusses auditing, internal control systems and financial reporting matters.

The Audit Committee is scheduled to meet at least 4 times a year to mainly review audit reports, status of the Group's audits, internal control and the interim and final accounts of the Group prior to recommending them to the Board for approval.

1.3.2 Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee is mainly responsible for the development and review of HKEx's corporate governance ("CG") and corporate social responsibility ("CSR") vision, strategy, framework, principles and policies, and making relevant recommendations to the Board, and implementing the CG and CSR policies laid down by the Board.

The Environmental, Social and Governance Committee shall meet at least once every year.

1.3.3 Investment Advisory Committee

The Investment Advisory Committee was established to provide market expertise and advice to the Board on investments of HKEx, including advice on investment policies, asset allocation and selection of fund managers and custodians.

The Investment Advisory Committee is scheduled to meet at least 4 times a year. Additional meetings should be held as the work of the Committee demands.

1.3.4 Risk Management Committee

The Risk Management Committee was established under Section 65 of the SFO, and is responsible for the formulation of policies on risk management matters relating to the activities of HKEx or the exchanges and clearing houses of which HKEx is the controller.

There is no fixed schedule of meeting under the Terms of Reference of the Risk Management Committee, but meetings are normally held on a monthly basis.

1.3.5 Nomination Committee

The Nomination Committee is mainly responsible for the formulation of the nomination policy, reviewing the structure, size and diversity of the Board, determination of the selection criteria of non-Government Appointed Directors, nomination of candidates for election by shareholders, considering the skills mix needed in respect of Government Appointed Directors, nomination of candidates to fill casual vacancies of Elected Directors, assessing Non-executive Directors' independence, reviewing the time required from a Director to perform his responsibilities, reviewing the Board Diversity Policy, and reviewing succession planning for the Chairman, the Chief Executive as well as the senior management together with the Board, as appropriate.

The Nomination Committee shall meet at least annually and whenever it considers necessary.

1.3.6 Remuneration Committee

The Remuneration Committee is mainly responsible for the formulation of the remuneration policy and the guidelines for the recruitment and the remuneration of Directors, including the Chief Executive of HKEx who is an Executive Director, and the senior management.

The Remuneration Committee is scheduled to meet at least once a year.

1.3.7 Panel Member Nomination Committee

The Panel Member Nomination Committee is mainly responsible for identifying and selecting nominees for the Cash Market Consultative Panel, the Derivatives Market Consultative Panel and the Clearing Consultative Panel (the "Consultative Panels") for the Board's consideration and approval.

The Panel Member Nomination Committee shall meet before the expiry of the terms of appointment of the members of the Consultative Panels or when there are any casual vacancies as it considers necessary. Additional meetings shall be held as the work of the Committee demands.

- 1.4 There are 3 consultative panels comprising mainly market experts aiming at giving advice to the Board on international trends, the needs of intermediaries, issuers, investors and market participants, and new product opportunities of each particular business sector.

The advisory panels are:

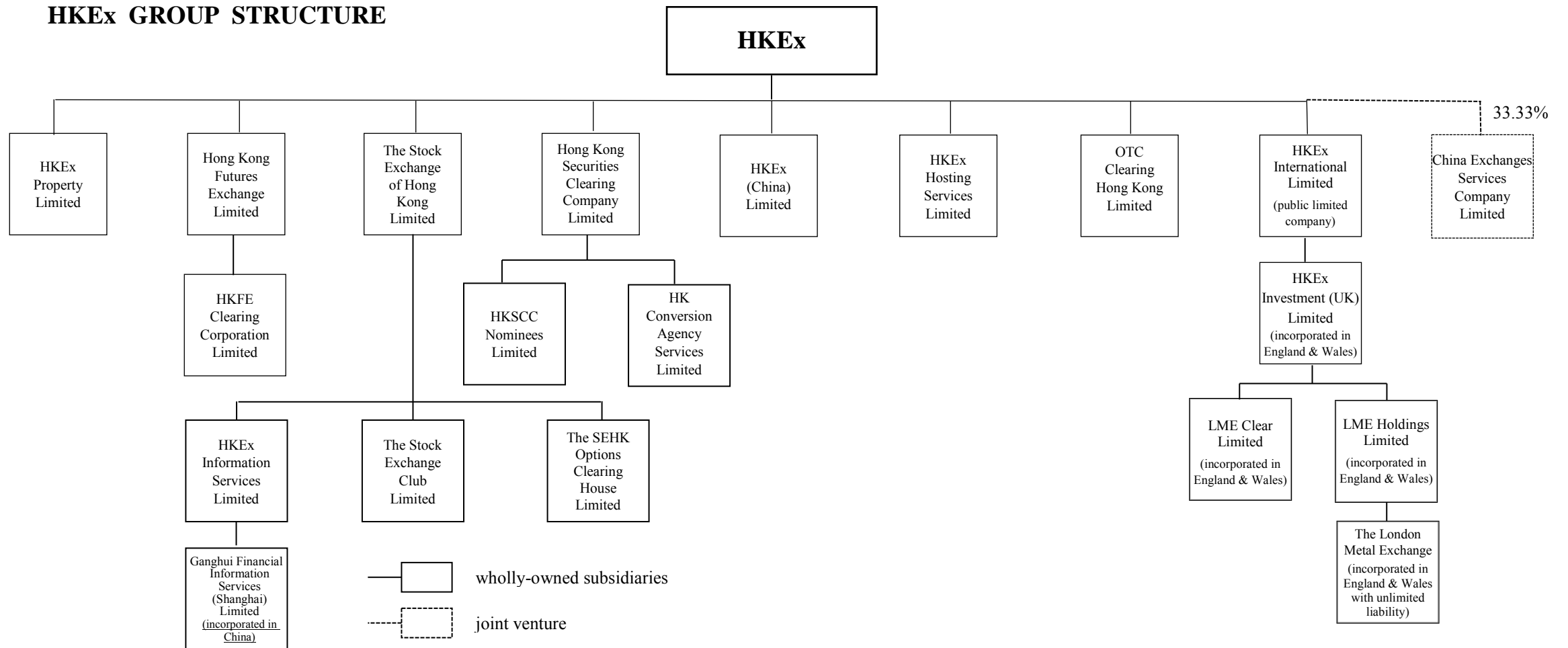
- Cash Market Consultative Panel
- Derivatives Market Consultative Panel
- Clearing Consultative Panel

The advisory panels are scheduled to meet at least once a year. Additional meetings are to be held as the work of the panel demands.

2.0 CONFLICT COMMITTEE

- 2.1 One of the principal purposes under the MOU for listing is the set up of a Conflict Committee to resolve issues relating to conflict of interest, as contemplated by Section 74 of the SFO.
- 2.2 If a conflict of interest arises, and HKEx casts a doubt on the conflict of interest issue or the consideration of the transaction exceeds 3% of the most recent book value of net tangible assets of HKEx, the transaction will be reported to a Conflict Committee which will be comprising not less than 3 employees of HKEx provided that at least 2 Committee members will be senior executives, i.e., the Chief Executive, the Chief Operating Officer, the Chief Executive of HKFE and the Chief Executive of SEHK.
- 2.3 If the Conflict Committee rules that the transaction will not constitute any conflict of interest, the case will be filed for record only.
- 2.4 If the Conflict Committee rules that there may be a conflict and considers that the conflict can be resolved, then the Committee will make written proposals to the SFC for its consideration.
- 2.5 If the Conflict Committee rules that the transaction involves a conflict of interest and the matter cannot be resolved, the case must be referred to the SFC who will then exercise the powers and functions as more specifically described under paragraph 11 of the MOU for listing.
- 2.6 In case where the SFC's executives and the members of the Conflict Committee have a conflicting point of view, the MOU for listing provides an appeal mechanism such that the case will be escalated to the SFC for final judgement.

HKEx GROUP STRUCTURE



All the above companies, except those otherwise stated, are incorporated in Hong Kong and are private limited companies.