

## Chapter 7: Related Party Transactions and Major Transactions

### OVERVIEW

This chapter deals with transactions which involve persons associated with an entity (related parties) and with substantial changes or transactions involving an entity.

In particular, it deals with:

- transactions between an entity and related parties;
- issues of securities to related parties; and
- significant changes or transactions involving the entity.

### Related Party Acquisitions and Disposals

- 7.1 An entity must not acquire a substantial asset from, or dispose of a substantial asset to, any of the following persons without the holders of the entity's ordinary securities approving the transaction:
- (a) a related party;
  - (b) a subsidiary;
  - (c) a shareholder who is entitled to at least 10% of the voting securities in the entity;
  - (d) a person who was entitled to at least 10% of the voting securities in the entity at any time during the six months before the transaction;
  - (e) an associate of a person referred to in rules 7.1(a) to 7.1(d); or
  - (f) a person whose relationship to the entity is, in the opinion of the Exchange, of such a nature that it is appropriate for the transaction to be approved by the entity's security holders.
- 7.2 An entity must ensure that none of its child entities enter into a transaction of a type described in rule 7.1 without the approval of the holders of the entity's ordinary securities.
- 7.3 For the purposes of rules 7.1 and 7.2, an asset is substantial if its value, or the value of the consideration for it, or in the opinion of the Exchange, is 5% or more of the equity interests of the entity as set out in the latest financial statements given to the Exchange under the Listing Rules.
- 7.4 Rules 7.1 and 7.2 do not apply to:
- (a) a transaction with a wholly owned subsidiary of the entity;
  - (b) a transaction between wholly owned subsidiaries of the entity;
  - (c) an issue of securities by the entity for cash; or
  - (d) in the case of a trust, a transaction involving a substantial asset that was not beneficially held for the trust before the transaction and is not beneficially held for the trust after the transaction.
- 7.5 An entity may request a written opinion from the Exchange on whether approval is required under rule 7.1 or rule 7.2 before acquiring or disposing of an asset. If an entity seeks an opinion it must give the Exchange full details of the proposed transaction. The Exchange will

only be bound by its written opinion if the details provided to it by the entity remain materially unchanged at the time of the transaction.

- 7.6 If an entity breaches rule 7.1 or rule 7.2, the Exchange may require it to:
- (a) cancel the transaction (or arrange for its cancellation); or
  - (b) seek approval of the transaction from the holders of ordinary securities in the entity.
- 7.7 If the Exchange requires an entity to obtain approval under rule 7.6(b) and it fails to do so the entity must cancel the transaction (or arrange for its cancellation).
- 7.8 Where a meeting is required under rule 7.1, 7.2 or 7.6(b), the notice of meeting must include:
- (a) a voting exclusion statement; and
  - (b) a report from an independent expert indicating whether the transaction is fair and reasonable to holders of the entity's ordinary securities (other than those covered by the voting exclusion statement).

#### **Issues of Securities to Related Parties**

- 7.9 Subject to rule 7.10, an entity must not issue equity securities to:
- (a) a person who, in the opinion of the Exchange, has a relationship with the entity of such a nature that the approval of security holders should be obtained; or
  - (b) a related party
- without first obtaining approval by special resolution from the holders of ordinary securities in the entity.
- 7.10 Rule 7.9 does not apply if the person:
- (a) receives the securities under a pro rata issue;
  - (b) receives the securities under a dividend or distribution plan established after the entity was listed and the terms of which have been approved by holders of ordinary securities;
  - (c) is a person referred to in rule 7.12 and receives the securities under an employee incentive scheme with approval under that rule;
  - (d) receives the securities under a takeover offer or takeover announcement;
  - (e) receives the securities as part of a merger under a scheme of arrangement;
  - (f) receives the securities on the conversion of convertible securities; or
  - (g) the person has received written consent from the Exchange confirming that the Exchange does not require rule 7.9 to apply to an issue of equity securities to the person in the particular circumstances set out in the written consent.
- 7.11 Where a meeting is required under rule 7.9 the notice of meeting must include:
- (a) the person's name;
  - (b) how many securities are to be issued to the person;
  - (c) the date by which the securities will be issued to the person (which must be no later than one month after the date of the meeting);

- (d) details of the proposed terms of the issue; and
- (e) a voting exclusion statement.

7.12 An entity must ensure that the approval of holders of ordinary securities by special resolution has been obtained before issuing securities to:

- (a) a director of the entity;
- (b) an associate of the director; or
- (c) a person whose relationship with the entity is such that, in the opinion of the Exchange, approval of security holders should be obtained

under an employee incentive scheme. The special resolution must have been passed at a general meeting held no earlier than the last annual general meeting of the entity.

7.13 Where a meeting is required under rule 7.12 the notice of meeting must include:

- (a) a description of the relationship between the person and the director or the entity (where the person is not a director);
- (b) the maximum number of securities that could be acquired by all persons for whom approval is required;
- (c) the price, or method for calculating the price, for each security to be acquired under the employee incentive scheme;
- (d) the terms of any loan relating to the acquisition of securities; and
- (e) a voting exclusion statement.

7.14 An entity must not allow:

- (a) a director of the entity;
- (b) an associate of a director of the entity; or
- (c) a person whose relationship with the entity is such that, in the opinion of the Exchange, they should not be permitted

to underwrite a dividend or distribution plan.

#### **Director's Remuneration**

7.15 An entity must obtain the prior approval of holders of ordinary securities before increasing the total amount of directors' fees payable by it or any of its child entities.

7.16 Where a meeting is required under rule 7.15 the notice of meeting must include:

- (a) the amount of the proposed increase;
- (b) the maximum amount that may be paid to the directors as a whole; and
- (c) a voting exclusion statement.

7.17 An entity must ensure that if a change occurs in the shareholding or control of the entity or any child entity no officer of the entity or of any of its child entities will be entitled to termination benefits (or any increase in them).

### **Significant Change in Activities**

- 7.18 If an entity proposes making any significant change, either directly or indirectly, to the nature or scale of its activities it must:
- (a) provide full details of the proposed change to the Exchange as soon as practicable and, in any event, before making any such change;
  - (b) if the Exchange requires it, obtain approval of the change from the holders of its ordinary securities;
  - (c) comply with any requirements the Exchange has in relation to the notice of meeting; and
  - (d) comply with any other requirements the Exchange has in relation to the proposed change.

### **Disposal of Main Undertaking**

- 7.19 If a significant change under rule 7.18 will involve an entity disposing of its main undertaking, the entity must:
- (a) ensure any agreement it enters into for the disposal of its main undertaking is conditional upon the entity obtaining the approval of holders of its ordinary securities to the disposition;
  - (b) obtain the approval of holders of its ordinary securities to the disposal; and
  - (c) comply with any other relevant requirements under rule 7.18.

### **Consequential Listing on Sale of Major Asset**

- 7.20 Subject to rule 7.21, if:
- (a) an entity holds a major asset, it must not dispose of that major asset if, at the time of the disposal, it is aware that the person acquiring the asset intends to issue or offer securities with a view to listing on a stock exchange;
  - (b) a child entity of an entity holds a major asset, the entity must not:
    - (i) sell securities in the child entity; or
    - (ii) allow the child entity to issue securitieswith a view to the child entity becoming listed.

- 7.21 Rule 7.20 does not apply if:
- (a) the securities, except those to be retained by the entity or child entity, are offered pro rata to holders of ordinary securities in the listed entity, or in another way that, in the opinion of the Exchange, is fair in all the circumstances; or
  - (b) holders of ordinary securities in the listed entity approve the disposal without the offer referred to in rule 7.21(a) being made.

- 7.22 The notice of meeting for the purposes of rule 7.21(b) must include a voting exclusion statement.