1. There may be instances where, as a result of acquiring statutory control of a company (which need not be a Code company), a person or group of persons may in turn obtain or consolidate control over a second company because the first company holds 30% or more of the voting rights of the second. In such cases, Note 8 to Rule 26.1 of the Takeovers Code provides that the acquirer of the first company may trigger an obligation to make a

"Statutory control" in this Note means the degree of control which a company has over a subsidiary."

~~Trigger~~

12. If any calculation is considered not suitable, alternative tests should be produced with justification.

The Purpose Te st

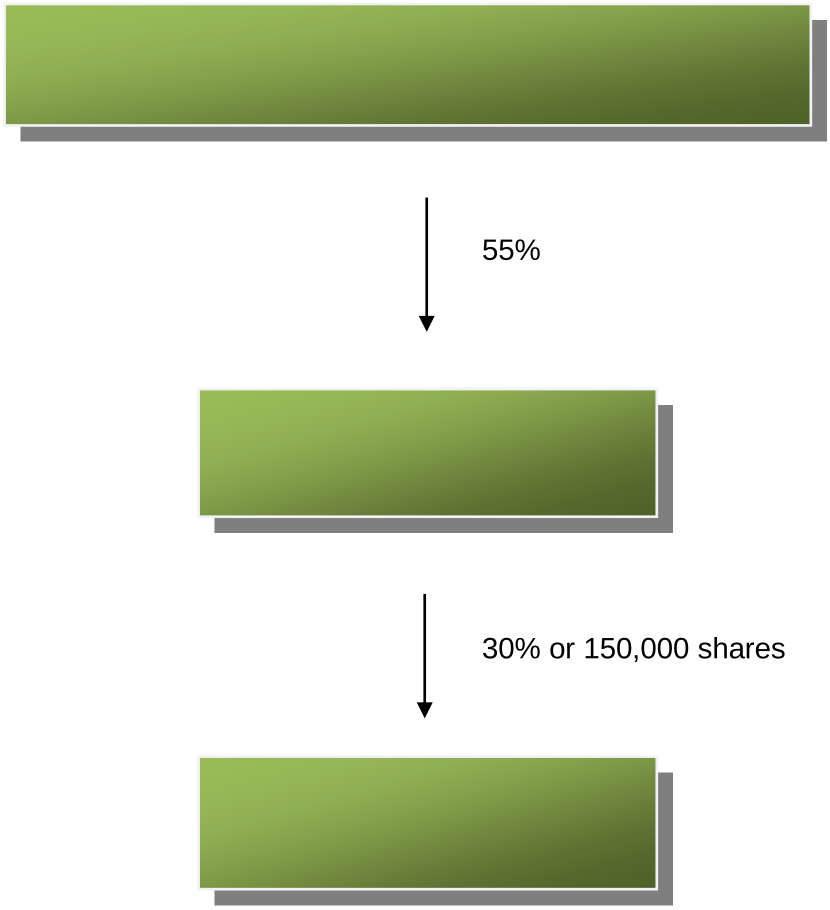
13. So long as one of the main purposes of acquiring the first company was to secure control of the second company, a chain principle offer will be triggered. This is a useful anti-avoidance test that protects the interests of the shareholders of a much smaller second company when the offeror sets out to purchase interest in the first company with an ultimate goal of securing control of the second company in mind.

Chain principle offer price

14. The offer price should be calculated objectively taking into consideration the transacted price for shares in the first company and the relative value of the second company. The objective of the exercise is to establish how much of the price paid for the first company is attributable to its holding in the second.

15. The mechanism for pricing chain principle offers may differ depending on the circumstances of each case. For companies that are asset-based, asset values are normally used to determine the chain principle offer price. Where there are non-controlling interests, the Executive will generally take the asset values to be the net assets less non-controlling interests (~~ie,~~i.e., equity att.

17. Set out below is an example of an offeror triggering a chain principle offer for an asset-based company:



An Offeror acquires a 10% interest in Company A~~,~~ increasing its shareholding from 45% to 55%. Company A holds 30% of Company B (~~ie~~i.e.~~,~~ 150,000 shares). Both Company A and Company B are engaged in property development and investment.

The acquisition price is $4.00 for each share in Company A. The net assets less non-controlling interests (if any) ( ) of Company A is $500,000 and that of Company B is $400,000. The total number of issued shares of Company A and Company B is 1,000,000 shares and 500,000 shares respectively.

18. Steps to calculate the chain principle offer price for Company B:

1. <u>Determine the ratio reflecting the relative values of Company A and Company B</u>

   (a)

19. In summary~~,~~ the Pacpo Formula calculates a chain principle offer price as follows:

NALNCI of 2nd	1st company's % shareholding in 2nd company

20. It is noted that the Pacpo Formula essentially arrives at the chain principle offer price of the second company by applying the same premium or discount to NALNCI at which the offeror is acquiring the first company.

~~30~~29 September ~~2019~~2023