

## CHAPTER 5

### Continuing Obligations

This chapter deals with the Issuers' continuing obligations and one of its objectives is to implement the relevant provisions of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are Admitted to Trading on a regulated market and Directive 2007/14/EC of 8 March 2007. These requirements do not exclude any other ongoing obligations which may be contained in other chapters of these Capital Markets Rules.

*Preliminary*

- 5.1 Once an Issuer's Securities have been duly authorised as admissible to listing on a Regulated Market and Malta is the Home Member State, the Issuer shall be responsible for ensuring compliance with the continuing obligations of these Capital Markets Rules at all times.
- 5.2 The MFSA may, at any time, require an Issuer to publish such information in such form and within such time limits as it considers appropriate to protect investors or to ensure the smooth operation of the market.
- 5.3 If an Issuer fails to comply with the requirement under Capital Markets Rule 5.2, the MFSA may itself publish the information, if the same is available to it, after giving the Issuer an opportunity to make representations as to why it should not be published.
- 5.4 Where Malta is the Home Member State, the MFSA may subject Issuers to obligations more stringent than those provided for hereafter or to additional obligations, provided that they apply generally to all Issuers or to all Issuers of a given Class.
- 5.5 The provisions of this Chapter shall not apply to Units issued by collective investment undertakings other than the closed-end type, or to Units acquired or disposed of in such collective investment undertakings.
- 5.6 Subject to any exemptions set out herein, this Chapter applies to an Issuer:
- 5.6.1 whose Securities are admitted to listing on a Regulated Market; and
- 5.6.2 whose Home Member State is Malta.
- 5.7 For the purposes of this Chapter, "Home Member State" means:
- 5.7.1 in the case of an Issuer of Debt Securities the denomination per unit of which is less than one thousand (1,000) Euro or an Issuer of Shares:
- 5.7.1.1 where the Issuer is incorporated in a Member State or EEA State, the Member State or EEA State in which it has its registered office;
- 5.7.1.2 where the Issuer is incorporated or registered in a non-Member or EEA State the Member State chosen by the Issuer from amongst the Member States or EEA States where its securities are admitted to trading on a Regulated Market. This choice shall remain valid unless the Issuer has chosen a new Home Member State under Capital Markets Rule 5.7C and has disclosed that choice.
- 5.7B In the case of an Issuer not covered by Capital Markets Rule 5.7.1, the Home Member State shall be the Member State chosen by the Issuer from among the Member States or EEA States in which the Issuer has its registered office, where applicable, and those Member States or EEA States where its securities are admitted to trading on a Regulated Market. This choice shall remain valid for at least three years unless its securities are no longer admitted to trading on any Regulated Market

in the Member States or EEA States or unless the Issuer becomes subject to Capital Markets Rules 5.7.1 or 5.7C during the three-year period.

- 5.7C In the case of an Issuer whose securities are no longer admitted to trading on a Regulated Market in its Home Member State which Member State was chosen by the Issuer in terms of Capital Markets Rules 5.7.1.2 or 5.7B but instead are admitted to trading in one or more other Member States, the Home Member State shall be the Member State chosen by the Issuer from amongst the Member States where its securities are admitted to trading on a Regulated Market and, where applicable, the Member State where the Issuer has its registered office.
- 5.7D Where Debt Securities are denominated in a currency other than the Euro, the Home Member State shall be determined by taking into consideration the equivalent value in Euro of the value of such Debt Securities' denomination per unit at the date of the issue.
- 5.8 For the purposes of this Chapter, Malta shall be deemed to be the "Host Member State" where it is not the Home Member State of the Issuer and securities are Admitted to Trading on a Regulated Market in Malta.
- 5.9 Where, pursuant to these Capital Markets Rules, the Issuer is entitled to choose its Home Member State, the Issuer may choose only one Member State as its Home Member State.
- 5.10 The choice referred to in Capital Markets Rules 5.7.1.2, 5.7B and 5.7C shall be disclosed in terms of Capital Markets Rule 5.246.
- 5.10A An Issuer shall disclose its Home Member State:
- 5.10A.1 to the MFSA, where Malta is the Home Member State;
  - 5.10A.2 to the competent authorities of all Host Member States, if applicable;
  - 5.10A.2 where the registered office is not in Malta, to the competent authority of the Member State where it has its registered office, if applicable.
- 5.10B Where the Issuer fails to disclose its choice of Home Member State within a period of three months from the date the Issuer's securities are first admitted to trading on a Regulated Market, the Home Member State shall be the Member State where the Issuer's securities are admitted to trading on a regulated market. Where the Issuer's securities are admitted to trading on regulated markets situated or operating within more than one Member State, those Member States shall be the issuer's Home Member States until a subsequent choice of a single Home Member State has been made and disclosed by the Issuer.
- 5.11 Issuers which have only Debt Securities authorised as Admissible to Listing shall comply with this Chapter but need not comply with the following Capital Markets Rules of this Chapter:
- Capital Markets Rule
- 5.16.4 Board Decisions
  - 5.16.8 Notification of major holdings
  - 5.16.9 Total number of voting rights

5.16.10	Proportion of the Issuer's holding in own equity
5.104 - 5.105	Directors' Service Contracts
5.135- 5.144	Related Parties Transactions
5.54	Preliminary Statement of Annual Results
5.70.1	Annual Financial Report – material contracts

5.12 Issuers which have only fixed income Shares which are Admissible to Listing must comply with this Chapter but need not comply with the following Capital Markets Rules of this Chapter:

Capital Markets Rule

5.104 - 5.105	Directors' Service Contracts
5.135 - 5.144	Transactions with Related Parties

*Company Announcements*

5.13 The object of a Company Announcement is to bring useful and relevant facts to the attention of the market. Issuers shall be responsible to ensure that a Company Announcement is precise, clear and truthful, and does not contain promotional, ambiguous, irrelevant or confusing material.

5.14 The information which is required to be published by the Issuer or a person who has applied for admission to trading on a Regulated Market without the Issuer's consent through a Company Announcement shall not be disclosed to the public before it has been so announced.

5.15 Company Announcements shall be made in the English or Maltese language without delay through a Regulated Market.

5.16 The information which has to be disclosed by means of a Company Announcement includes, but is not limited to, the following:

- 5.16.1 price-sensitive facts which arise in the Issuer's sphere of activity and which are not public knowledge;
- 5.16.2 any information concerning the Issuer or any of its Subsidiaries necessary to avoid the establishment of a false market in its Securities;
- 5.16.3 the date fixed for any board meeting of the Issuer at which a dividend on Securities Admitted to Listing is expected to be declared or recommended, or at which any announcement of the profits or losses is to be approved;
- 5.16.4 any decision by the board of Directors of the Issuer relating to the declaration or otherwise of dividends or other distributions on Securities Admitted to Listing or relating to profits;
- 5.16.5 any change in the board of Directors, company secretary or any other senior officers of the Issuer, which announcement shall contain the information required in terms of Capital Markets Rules 5.20 and 5.21
- 5.16.6 the filing of a winding-up application;

- 5.16.7 any resolution by the board of Directors for the merger or division of the Issuer and any agreement entered into in connection with any acquisition or realisation of assets or any transaction outside the ordinary course of business of the Issuer and/or its Subsidiaries which is likely to materially affect the price of its Securities;
- 5.16.8 the information contained in the notification submitted by a Shareholder in terms of Capital Markets Rule 5.193;
- 5.16.9 the total number of voting rights and capital at the end of each calendar month during which an increase or decrease of such total number has occurred;
- 5.16.10 the proportion of the Issuer's holding in its own Shares, following an acquisition or sale of its own Shares where that proportion reaches, exceeds or falls below the thresholds of 5% or 10% of the voting rights;
- 5.16.11 any material change to its capital structure including the structure of its Debt Securities Admitted to Listing, except that notification of a new issue may be delayed while an offer or underwriting is in progress;
- 5.16.12 any new issue of Debt Securities;
- 5.16.13 any guarantee or security provided in respect of an issue of Debt Securities, together with a statement, where applicable, indicating where the audited Annual Accounts of any guarantor are available to the public;
- 5.16.14 any change in the rights;
  - 5.16.14.1 attaching to the various classes of Shares, including changes in the rights attaching to derivative Securities issued by the Issuer itself and giving access to the Shares of that Issuer;
  - 5.16.14.2 of holders of Securities other than Shares, including changes in the terms and conditions of these Securities which could indirectly affect those rights, resulting in particular, from a change in loan terms or in interest rates.
- 5.16.15 the effect, if any, of any issue of further Securities on the terms of the exercise of rights under options, warrants and convertible Securities;
- 5.16.16 the results of any new issue or Public Offer of Securities;
- 5.16.17 any sale of Shares in a material Subsidiary resulting in that company ceasing to be a Subsidiary and any acquisition of shares of an unquoted Company resulting in that company becoming a material Subsidiary;
- 5.16.18 all resolutions put to a general meeting of an Issuer which are not Ordinary Business and immediately after such meeting whether or not the resolutions were carried;
- 5.16.19 any decision by the board of Directors to recommend the discontinuation of listing of the Issuer's securities in terms of Capital Markets Rule 1.22;
- 5.16.20 the matters referred to in Capital Markets Rules 5.54 (preliminary results), 5.40 (profit forecast) and 5.74 (half-yearly reports);
- 5.16.21 a statement indicating where the Annual Financial Report has been made available to the public;
- 5.16.22 the choice of Home Member State that an Issuer may be entitled to make in terms of Chapter 5;

- 5.16.23 the appointment of a person as both Chairman and Chief Executive Officer of the Issuer;
  - 5.16.24 where the board of Directors determines that the results in respect of any published financial information materially differ by ten percent (10%) or more from any published forecast or estimate or financial projections by the Issuer, in which case the company announcement must contain an explanation of such difference; and
  - 5.16.25 the matters referred to in Capital Markets Rule 5.174.2.
- 5.17 The Company Announcement containing the information prescribed by Capital Markets Rule 5.16.10 shall be made by not later than four trading days following the acquisition or sale. The proportion of the Issuer's holding in its own shares shall be calculated on the basis of the total number of Equity Securities to which voting rights are attached.
- 5.18 Without prejudice to the Prevention of Market Abuse Act, Capital Markets Rules 5.16.12 and 5.16.13 shall not apply to a public international body of which at least one Member State is a member.

*Exemption*

- 5.19 Should the Issuer consider that announcements and/or disclosure to the public of information required by these Capital Markets Rules might prejudice the Issuer's legitimate interests, the Issuer may seek an exemption from the relevant requirement by notice in writing to the MFSA:
- Provided that this Capital Markets Rule shall not apply to announcements and/or disclosure to the public of Regulated Information.

*Officers of the Issuer*

- 5.20 A Company Announcement made in terms of Capital Markets Rule 5.16.5 shall contain the following information in respect of any new Director appointed to its board of Directors, company secretary or any other senior officer, unless such details have already been disclosed in a Prospectus or other Circular published by the Issuer in the immediately preceding twelve months:
- 5.20.1 the full name and, if relevant, any former name or names, residential address and function in the Issuer and an indication of the principal activities performed by them outside the Issuer where these are significant with respect to the Issuer;
  - 5.20.2 details of all Directorships held by such Director or senior officer in any other Issuer at any time in the previous five (5) years, indicating whether or not the individual is still a Director;
  - 5.20.3 the effective date of change or a statement that the effective date is not yet known or has not yet been determined. In the latter case, the effective date of change should be announced by the Issuer once it is known;

- 5.20.4 in the case of an appointment of a Director, a statement indicating the nature of any specific function or responsibility of the position and whether the position is executive or non-executive;
  - 5.20.5 any pending criminal proceedings in respect of any crimes affecting public trust or theft or of fraud or of knowingly receiving property obtained by theft or fraud;
  - 5.20.6 details of any discharged bankruptcies over the last five years;
  - 5.20.7 details of any creditors' voluntary winding-up, winding-up by the court or reconstruction of any Company or other commercial partnership where such person was a partner or Director with an executive function at the time of or within the twelve (12) months preceding such events;
  - 5.20.8 details of any public criticisms of such person by statutory or regulatory authorities, including recognised professional bodies, which have not been subsequently withdrawn by the relevant authority or body and whether such person has ever been disqualified by law or by a court from acting as a Director of a Company or from acting in the management or conduct of the affairs of any Body Corporate; and
  - 5.20.9 whether such person was the subject of any order, judgement or ruling of any court of competent jurisdiction, tribunal or any other regulatory authority in Malta or overseas, permanently or temporarily prohibiting him from engaging in any type of business practice or activity.
- 5.21 Should there be no information to be disclosed in terms of Capital Markets Rules 5.20.5 to 5.20.9, an appropriate negative statement to that effect shall be made.

#### *Rights of Holders of Securities*

- 5.22 An Issuer having Equity Shares authorised as Admissible to Listing shall ensure equality of treatment for all holders of such Equity Shares who are in the same position.
- 5.23 An Issuer having Debt Securities authorised as Admissible to Listing shall ensure equality of treatment for all holders of such Securities of the same Class in respect of all rights attaching to such Securities.
- 5.24 An Issuer must obtain the consent of the holders of its Equity Shares before any major Subsidiary Undertaking of the Issuer makes any issue for cash of Equity Securities so as materially to dilute the Issuer's percentage interest in Equity Shares or Equity Securities of that Subsidiary Undertaking.
- 5.25 Shareholders shall not be prevented from exercising their rights by proxy, subject to the law of the country in which the Issuer is incorporated.

#### *Proxy Forms*

- 5.26 A proxy form must:

- 5.26.1 be sent with the notice convening a meeting of holders of Securities authorised as Admissible to Listing to each person entitled to vote at the meeting;
  - 5.26.2 provide for two-way voting on all resolutions intended to be proposed (except that it is not necessary to provide proxy forms with two-way voting on procedural resolutions);
  - 5.26.3 state that a holder of security is entitled to appoint a proxy of his own choice and provide a space for insertion of the name of such proxy; and
  - 5.26.4 state that if it is returned without an indication as to how the proxy shall vote on any particular matter, the proxy will exercise his discretion as to whether, and if so, how he votes.
- 5.27 Where the resolutions to be proposed include the re-election of retiring Directors, the proxy form must allow shareholders to vote for individual candidates irrespective of whether they are new candidates or retiring incumbents of the post.

*Information requirements for Issuers whose shares are Admitted to Trading on a Regulated Market*

- 5.28 An Issuer shall ensure that all the facilities and information necessary to enable holders of shares to exercise their rights are available in Malta, where Malta is the Home Member State and that the integrity of data is preserved.
- 5.29 The Issuer shall;
- 5.29.1 provide information on the place, time and agenda of meetings, the total number of shares and voting rights and the rights of holders entitled to participate in meetings;
  - 5.29.2 make available a proxy form in terms of Capital Markets Rules 5.26. and 5.27, on paper or, where applicable, by Electronic Means, to each person entitled to vote at a shareholders' meeting, together with the notice concerning the meeting or, on request, after an Announcement of the meeting;
  - 5.29.3 designate as its agent a financial or credit institution through which such shareholder may exercise his financial rights; and
  - 5.29.4 publish notices or distribute Circulars concerning the allocation and payment of dividends and the issue of new shares, including information on any arrangements for allotment, subscription, cancellation or conversion.
- 5.30 If a Circular is issued to the holders of any particular Class of Security, the Issuer must issue a copy or summary of that Circular to all other holders of its Securities which are authorised as Admissible to Listing unless the contents of that Circular are irrelevant to them.
- 5.31 The Issuer's obligation of circulating any Regulated Information to shareholders other than the Annual Accounts shall be duly satisfied if the Issuer sends a notice to the registered address of each Shareholder by means of the postal service advising that such information has been posted on a website designated therein and that such



document is available in printed format upon written request made by any shareholder.

- 5.32 The Issuer shall use Electronic means to circulate Regulated Information other than the Annual Accounts, provided such a decision is taken at a general meeting and meets at least the following conditions:
- 5.32.1 the use of Electronic means shall in no way depend upon the location of the seat or residence of the Shareholder or, in the cases referred to in Capital Markets Rule 5.182, of the natural persons or Legal Entities;
  - 5.32.2 identification arrangements shall be put in place so that the shareholders, or the natural persons or Legal Entities entitled to exercise or to direct the exercise of voting rights, are effectively informed;
  - 5.32.3 shareholders, or in the cases referred to in Capital Markets Rule 5.182, the natural persons or Legal Entities entitled to acquire, dispose of or exercise voting rights, shall be contacted in writing to request their consent for the use of Electronic means for conveying information and, if they do not object within a reasonable period of time, their consent shall be deemed to be given. They shall be able to request, at any time in the future, that information be conveyed in writing; and
  - 5.32.4 any apportionment of the costs entailed in the conveyance of such information by Electronic means shall be determined by the Issuer in compliance with the principle of equal treatment.

*Information requirements & venue for Issuers whose Debt Securities are Admitted to Trading on a Regulated Market*

- 5.33 An Issuer of Debt Securities shall ensure that all the facilities and information necessary to enable Debt Securities holders to exercise their rights are publicly available in Malta, when Malta is the Home Member State and the integrity of data is preserved.
- 5.34 Debt Securities holders shall not be prevented from exercising their rights by proxy, subject to the law of country in which the Issuer is incorporated.
- 5.35 The Issuer shall, where applicable -
- 5.35.1 publish notices or distribute Circulars concerning the place, time and agenda of meetings of Debt Securities holders, the payment of interest, the exercise of any conversion, exchange, subscription or cancellation rights, and repayment, as well as the right of those holders to participate therein;
  - 5.35.2 make available a proxy form in terms of Capital Markets Rules 5.26 and 5.27 on paper or by electronic means, to each person entitled to vote at a meeting of Debt Securities holders, together with the notice concerning the meeting or, on request, after an Announcement of the meeting; and
  - 5.35.3 designate as its agent a financial or credit institution through which the Debt Securities holder may exercise his financial rights.

- 5.36 If only holders of Debt Securities whose denomination per unit amounts to at least hundred thousand Euro (€100,000) or, in the case of Debt Securities denominated in currency other than Euro whose denomination per unit is, at the date of the issue, equivalent to at least hundred thousand Euro (€100,000), are to be invited to a meeting, the Issuer may choose as venue any Member or EEA State, provide that all the facilities and information necessary to enable such holders to exercise their rights are made available in that Member or EEA State.
- 5.37 For the purposes of conveying Regulated Information to Debt Securities holders, the Issuer shall use Electronic Means, provided such a decision is taken at a general meeting and meets at least the following conditions:
- 5.37.1 the use of Electronic means shall in no way depend upon the location of the seat or residence of the debt security holder or of a proxy representing that holder;
  - 5.37.2 identification arrangements shall be put in place so that Debt Securities holders are effectively informed;
  - 5.37.3 Debt Securities holders shall be contacted in writing to request their consent for the use of Electronic means for conveying information and if they do not object within a reasonable period of time, not exceeding fourteen (14) days, their consent shall be deemed to be given. They shall be able to request, at any time in the future, that information be conveyed in writing; and
  - 5.37.4 any apportionment of the costs entailed in the conveyance of information by Electronic means shall be determined by the Issuer in compliance with the principle of equal treatment.
- 5.38 The provisions of Capital Markets Rules 5.16.12, 5.35, 5.36 and 5.37 shall not apply to securities Admitted to Trading on a Regulated Market issued by Member or EEA States or their regional or local authorities.

#### *Periodic financial reporting*

- 5.39 Where an Issuer publishes financial information in cases other than those provided for in these Capital Markets Rules, the Issuer shall comply with generally accepted accounting principles and practice as defined by the Accountancy Profession Act or regulations issued in terms thereof.

#### *Profit Forecasts and Estimates*

- 5.40 Whenever a profit forecast or estimate is made by an Issuer it must contain:-
- 5.40.1 a statement setting out the principal assumptions upon which the Issuer has based its forecast or estimate and clearly distinguishing between assumptions about factors which the Directors of the Issuer can influence and assumptions about factors which are exclusively outside the influence of the Directors; and
  - 5.40.2 a report prepared by independent Accountants or Auditors stating that in their opinion the forecast or estimate has been properly compiled on the

basis stated and that the basis of accounting used for the profit or estimate is consistent with the accounting policies of the Issuer.

- 5.41 The assumptions referred to in Capital Markets Rule 5.40.1 must be readily understandable by investors, be specific and precise and not relate to the general accuracy of the estimates underlying the profit forecast.
- 5.42 The profit forecast or estimate must be prepared on a basis comparable with the historical financial statements published by the Issuer.

*Pro Forma Financial Information*

- 5.43 If an Issuer publishes pro forma financial information, that information must be presented in the manner laid down by Capital Markets Rule 5.47.
- 5.44 The pro forma financial information must include a description of the transaction, the businesses or entities involved and the period to which it refers, and must clearly state the following:
- 5.44.1 the purpose for which it has been prepared;
  - 5.44.2 that it has been prepared for illustrative purposes only; and
  - 5.44.3 that because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Issuer's actual financial position or results.
- 5.45 In order to present pro forma financial information, a balance sheet and profit and loss account, and accompanying explanatory notes, depending on the circumstances, may be included.
- 5.46 The pro forma financial information must also provide investors with information about the impact of the transaction the subject of the document by illustrating how that transaction might have affected the financial information presented in the document had the transaction been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported. The pro forma financial information presented must not be misleading, must assist investors in analysing the future prospects of the Issuer and must include all appropriate adjustments permitted by Capital Markets Rule 5.51, of which the Issuer is aware, necessary to give effect to the transaction as if the transaction had been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported on.
- 5.47 The pro forma information must be presented in columnar format showing separately the historical unadjusted financial information, the pro forma adjustments and the resulting pro forma financial information in the final column. The sources of the pro forma financial information have to be stated and, if applicable, the financial statements of the acquired businesses or entities must be included.

- 5.48 The pro forma financial information must be prepared in a manner consistent with both the format and accounting policies adopted by the Issuer in its last or next financial statements and must identify:
- 5.48.1 the basis upon which it is prepared; and
  - 5.48.2 the source of each item of information and adjustment.
- Pro forma figures must be given no greater prominence in the document than audited figures.
- 5.49 Pro forma financial information may only be published in respect of:
- 5.49.1 the current Financial Year;
  - 5.49.2 the most recently completed Financial Year; and/ or
  - 5.49.3 the most recent interim period for which relevant unadjusted information has been or will be published or is being published in the same document;
- and, in the case of a pro forma balance sheet or net asset statement, as at the date on which such periods end or ended.
- 5.50 The unadjusted information must be derived from the most recent:
- 5.50.1 audited published Accounts or preliminary statement;
  - 5.50.2 Accountants' Report or comparative table;
  - 5.50.3 previously published pro forma financial information reported on in accordance with Capital Markets Rule 5.52; or
  - 5.50.4 published profit forecast or estimate.
- 5.51 Pro forma adjustments related to the pro forma financial information must be:
- 5.51.1 clearly shown and explained;
  - 5.51.2 directly attributable to the transaction concerned and not relating to future events or decisions;
  - 5.51.3 factually supportable; and
  - 5.51.4 in respect of a pro forma profit or cash flow statement, clearly identified as to those adjustments which are expected to have a continuing impact on the Issuer and those which are not.
- 5.52 The pro forma financial information must be accompanied by a report prepared by independent accountants or auditors who must report that, in their opinion:
- 5.52.1 the pro forma financial information has been properly compiled on the basis stated;
  - 5.52.2 such basis is consistent with the accounting policies of the Issuer; and
  - 5.52.3 the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Capital Markets Rule 5.46.
- 5.53 Where pro forma earnings per Share information is given for a transaction which includes the issue of Securities, the calculation should be based on the weighted

average number of Shares outstanding during the period, adjusted as if that issue had taken place at the beginning of the period.

#### *Preliminary Statement of Annual Results*

- 5.54 If an Issuer publishes a preliminary statement of annual results it shall include:
- 5.54.1 a condensed balance sheet;
  - 5.54.2 a condensed income statement;
  - 5.54.3 a condensed statement of changes in equity;
  - 5.54.4 a condensed cash flow statement;
  - 5.54.5 explanatory notes and any significant additional information necessary of the purpose of assessing the results being announced;
  - 5.54.6 a statement that the annual results have been agreed with the Auditors and if the Auditors' report is likely to be qualified, give details of the nature of the qualification; and
  - 5.54.7 any decision to pay or make any dividend or other distribution on Equity Securities authorised as Admissible to Listing or to withhold any dividend or interest payment on Securities authorised as Admissible to Listing giving details of:
    - 5.54.7.1 the exact net amount payable per Share;
    - 5.54.7.2 the payment date; and
    - 5.54.7.3 the cut off date when the Register is closed for the purpose of distribution

#### *Annual Financial Report*

- 5.55 The Annual Financial Report shall include:
- 5.55.1 the annual financial statements together with the Directors' Report or equivalent report and the auditors' report thereon;
  - 5.55.2 a statement of responsibility, provided that the requirement to include such a statement shall apply to Annual Financial Report relating to financial periods commencing on or after 1 January 2007;
  - 5.55.3 a report by the Directors on the compliance by the Issuer with the Code of principles for Good Corporate Governance as required by Capital Markets Rule 5.97;
  - 5.55.4 the information prescribed by Capital Markets Rule 5.70;
  - 5.55.5 a report by the auditors on the compliance by the Issuer with the Code of principles for Good Corporate Governance; and
  - 5.55.6 a report by the auditors on the compliance by the Issuer with the single electronic reporting format as referred to in Capital Markets Rule 5.56A.
- 5.56 An Issuer must ensure that its Annual Financial Report is made available to the public as soon as it has been approved by the Directors. The Annual Financial Report shall be approved, lodged with the MFSA for Validation in terms of Capital

Markets Rule 5.56A, and made available to the public by not later than four (4) months after the end of each financial year, and shall remain publicly available for a period of at least ten (10) years.

5.56A Without prejudice to Capital Markets Rule 5.56, with effect from 1 January 2020 all Annual Financial Reports containing financial statements for financial years beginning on or after 1 January 2020 may be entirely prepared in a single electronic reporting format.

Provided that with effect from 1 January 2021 all Annual Financial Reports containing financial statements for financial years beginning on or after 1 January 2021 shall be entirely prepared in a single electronic reporting format.

5.56B An annual financial report that is not prepared in accordance with Capital Markets Rule 5.56A shall not be deemed to satisfy the definition of “Annual Financial Report” and “Regulated Information” as defined by the Capital Markets Rules.

*Annual financial statements*

5.57 If an Issuer is required to prepare Consolidated Accounts, the annual financial statements shall comprise:

5.57.1 consolidated accounts prepared according to international accounting standards as adopted by the EU; and

5.57.2 annual accounts of the parent company prepared in accordance with the national law of the Member State in which the parent company is registered or incorporated.

5.58 If an Issuer is not required to prepare consolidated accounts, the annual financial statements shall comprise accounts prepared in accordance with the national law of the Member State in which the Issuer is registered or incorporated.

*Annual financial statements of guarantors*

5.59 The annual financial statements of any guarantor referred to in Capital Markets Rule 5.16.13 shall be drawn up as follows:

5.59.1 where the guarantor is a company registered in Malta, it shall prepare its Annual Financial Statements in accordance with Generally Accepted Accounting Principles and Practice;

5.59.2 where the guarantor is a Company registered in a non-EU Member or EEA State, it shall prepare its Annual Financial Statements in accordance with Generally Accepted Accounting Principles and Practice or with national accounting standards which are equivalent to these standards. If the national accounting standards are not equivalent to these standards, the financial information must be presented in the form of restated financial statements.

5.60 Capital Markets Rules 5.71, 5.72 and 5.73 shall also apply to the annual financial statements of a guarantor.

- 5.61 The annual financial statements of a guarantor shall be approved and made available to the public within the period prescribed by Capital Markets Rule 5.56.

*The Directors' Report*

- 5.62 The Directors' Report shall be drawn up in accordance with the CA and should contain a statement by the Directors that the business is a going concern with supporting assumptions or qualifications as necessary; such statement is to be reviewed by the Auditors before publication.

- 5.63 *Omissis.*

- 5.64 In the case of an Issuer established as a limited liability company and having listed Securities carrying voting rights, the Directors' Report shall indicate the following information:

- 5.64.1 the structure of its Capital, including securities which are not Admitted to Trading on a Regulated Market in a Member State, where appropriate with an indication of the different Classes of shares and, for each Class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents;
- 5.64.2 any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the Company or other holders of securities;
- 5.64.3 any direct and indirect shareholdings, including indirect shareholdings through pyramid structures and cross-shareholdings, in excess of 5% of the share Capital;
- 5.64.4 the holders of any securities with special control rights and a description of those rights;
- 5.64.5 the system of control of any employee share scheme where the control rights are not exercised directly by the employees;
- 5.64.6 any restriction on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities;
- 5.64.7 any agreements between shareholders which are known to the Company and may result in restrictions on the transfer of securities and/or voting rights;
- 5.64.8 the rules governing the appointment and replacement of Directors and the amendment of the Memorandum and Articles of Association;
- 5.64.9 the powers of the Directors, and in particular the power to issue or buy back shares;
- 5.64.10 any significant agreement to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the

Company and this without prejudice to duty of the Company to disclose such information on the basis of other legal requirements;

5.64.11 any agreements between the Company and its Directors or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

5.65 The Board shall present an explanatory report to the Annual General Meeting of shareholders on the matters referred to above.

5.66 The provisions of Capital Markets Rules 5.64 and 5.65 shall apply to accounting periods commencing on or after 20 May 2006

#### *Statement of Responsibility*

5.67 The statement of responsibility referred to in Capital Markets Rule 5.55.2 shall be made by the Directors of the Issuer, or in the case where the Issuer is not a Company, by the persons responsible within the Issuer.

5.68 The statement of responsibility must set out that, to the best of the knowledge of the person or persons making the statement:

5.68.1 the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and the undertakings included in the consolidation taken as a whole; and

5.68.2 the Directors' report includes a fair review of the performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

5.69 The name and function of each of the persons responsible for making the statement of responsibility must be clearly indicated in the said statement.

5.70 The Annual Financial Report shall also contain the following:-

5.70.1 the nature and details of any material contract together with the names of the parties to the contract, irrespective of whether the transaction is a related party transaction or not, subsisting during the period under review, to which the Issuer, or one of its Subsidiary Undertakings, is a party and in which a Director of the Issuer is or was directly or indirectly interested; and

5.70.2 the name of the company secretary of the Issuer, the registered address and any other relevant contact details of the Issuer.

#### *Audit report on the financial statements*

5.71 If the Issuer is a company registered in Malta, the financial statements shall be audited in accordance with the CA.



- 5.71A Without prejudice to Capital Markets Rule 5.71, the financial statements shall be audited in accordance with the Accountancy Profession Act or the rules and directives issued under it.
- 5.72 If the Issuer is not a company registered in Malta but Malta is its Home Member State, the financial statements shall be audited in *accordance with Articles 51 and 51a* of Directive 78/660/EEC and if the Issuer is required to prepare consolidated accounts in accordance with Article 37 of Directive 83/349/EEC.
- 5.73 The audit report shall be signed by the person or persons responsible for auditing the financial statements and shall be published in full together with the Annual Financial Report.

*Issuers active in the extractive or logging of primary forest industries*

- 5.73A In the case of issuers active in the extractive or logging of primary forest industries, as defined in Article 41(1) and (2) of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, the Issuer shall prepare a report on payments made to governments. The report shall be made public at the latest six (6) months after the end of each financial year and shall remain publicly available for at least ten (10) years. Payments to governments shall be reported at consolidated level.

*Half-Yearly Report*

- 5.74 The Issuer of shares or debt securities shall make public a half-yearly financial report covering the first six months of each financial year.
- 5.75 The half-yearly financial report shall contain at least the following items:
- 5.75.1 the condensed set of financial statements;
  - 5.75.2 an interim directors' report, provided that the requirements of an interim directors' report in terms of Capital Markets Rules 5.81 to 5.84 and a statement in terms of Capital Markets Rule 5.75.3, shall apply to half-yearly financial reports relating to financial periods commencing on or after 1 January 2007;
  - 5.75.3 statements made by the persons responsible within the Issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the condensed set of financial statements which has been prepared in accordance with the applicable set of accounting standards gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole and that the interim directors report includes a fair review of the information required in terms of Capital Markets Rules 5.81 to 5.84;

- 5.75.4 when the half-yearly financial report has been audited or reviewed, the Auditors' report shall be reproduced in full, together with any reasoned qualifications which may have been made; and
- 5.75.5 if the half-yearly financial report has not been audited or reviewed, the Issuer shall make a statement to that effect in its report.

*Condensed set of financial statements*

5.76 Where the Issuer is required to prepare Consolidated Accounts in accordance with Generally Accepted Accounting Principles, the condensed set of financial statements referred to in Capital Markets Rule 5.75.1 shall be prepared in accordance with the international accounting standard applicable to interim financial reporting as adopted by the EU.

5.77 Where the Issuer is not required to prepare Consolidated Accounts, the condensed set of financial statements shall at least contain:

- 5.77.1 a condensed balance sheet;
- 5.77.2 a condensed profit and loss account;
- 5.77.3 explanatory notes on these accounts.
- 5.77.4 a condensed statement of cash flows; and
- 5.77.5 a condensed statement of changes in equity

Provided that when preparing the condensed balance sheet and the condensed profit and loss account, the Issuer shall follow the same principles for recognition and measurement as when preparing annual audited financial statements.

5.78 The condensed balance sheet and the condensed profit and loss account referred to in Capital Markets Rules 5.77.1 and 5.77.2 shall show each of the headings and subtotals included in the most recent annual financial statements of the Issuer. Additional line items shall be included if, as a result of their omission, the half-yearly financial statement would give a misleading view of the assets, liabilities, financial position and profit or loss of the Issuer.

5.79 The condensed set of financial statements prepared in terms of Capital Markets Rule 5.77 shall also contain the following comparative information:

- 5.79.1 a balance sheet as at the end of the first six months of the current financial year and a comparative balance sheet as at the end of the immediate preceding year;
- 5.79.2 a profit and loss account for the first six months of the current financial year and with effect from 1<sup>st</sup> March 2009, comparative information for the comparable period for the preceding financial year.

5.80 The explanatory notes referred to in Capital Markets Rule 5.77.3 shall include the following:

- 5.80.1 sufficient information to ensure the comparability of the half-yearly financial statement with the annual financial statement;

- 5.80.2 Sufficient information and explanations to ensure a user's proper understanding of any material changes in amounts and of any developments in the half-year period concerned, which are reflected in the balance sheet and the profit and loss account.

*Interim Directors' Report*

- 5.81 The Interim Directors' Report shall include at least an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.
- 5.82 In the Interim Directors' Report, Issuers of shares shall at least disclose as major related parties' transactions:
- 5.82.1 related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Issuer during that period;
  - 5.82.2 any changes in the related parties' transactions described in the last Annual Financial Report that could have a material effect on the financial position or performance of the Issuer in the first six months of the current financial year.
- 5.83 Where the Issuer of shares is not required to prepare Consolidated Accounts, it shall disclose, as a minimum, the following information with respect to material related party transactions which have not been concluded under normal market conditions:
- 5.83.1 the amount of such transactions;
  - 5.83.2 the nature of the related party relationship; and
  - 5.83.3 other information about the transactions necessary for an understanding of the financial position of the Issuer.
- 5.84 In relation to the transactions referred to in Capital Markets Rule 5.83 information about individual related party transaction may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the Issuer.
- 5.85 The half-yearly financial report shall be made available to the public as soon as it has been approved by the Directors. Such report shall be approved and made available to the public as soon as possible after the end of the relevant period, but not later than two months thereafter. The Issuer shall ensure that the half-yearly financial report remains available to the public for at least ten (10) years.

*Report on payments to governments*

- 5.86 The MFSA shall require issuers active in the extractive or logging of primary forest industries as defined in Article 41(1) and (2) of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (\*), to

prepare on an annual basis, in accordance with Chapter 10 of that Directive, a report on payments made to governments. The report shall be made public at the latest six months after the end of each financial year and shall remain publicly available for at least 10 years. Payments to governments shall be reported at consolidated level.

5.87 *Omissis*

5.88 *Omissis*

#### *Exemptions*

5.89 The obligation to draw up and make available to the public the Annual Financial Report and the Half-Yearly Report shall not apply to:

5.89.1 a State, a regional or local authority of a State, a public international body of which at least one Member State is a member, the European Central Bank, the European Financial Stability Facility established by the EFSF Framework Agreement and any other mechanism established with the objective of preserving the financial stability of European monetary union by providing temporary financial assistance to the Member States whose currency is the euro and Member States' national central banks whether or not they issue shares or other securities ; and

5.89.2 an Issuer exclusively of Debt Securities admitted to trading on a Regulated Market, the denomination per unit of which is at least hundred thousand Euro (€100,000) or, in the case of Debt Securities denominated in a currency other than Euro, the value of such denomination per unit is, at the date of the issue, equivalent to at least hundred thousand Euro (€100,000).

5.90 The obligation to draw up and make available to the public the Half-Yearly Report shall not apply to;

5.90.1 Credit Institutions whose shares are not Admitted to Trading on a Regulated Market and which have, in a continuous or repeated manner, only issued Debt Securities provided that the total nominal amount of all such Debt Securities remains below One hundred million Euro (€100,000,000) and that they have not published a Prospectus in terms of the Prospectus Directive;

5.90.2 Issuers already existing at the date of the entry into force of the Prospectus Directive which exclusively issue Debt Securities unconditionally and irrevocably guaranteed by the Home Member State or by one of its regional or local authorities, on a Regulated Market.

#### *Change of Accounting Reference Date*

5.91 If an Issuer which has Securities authorised as Admissible to Listing changes its accounting reference date it must notify the MFSA without delay of the new accounting reference date. If the effect of the change in the accounting reference date is to extend the accounting period to more than fourteen (14) months, the Issuer must prepare and publish a second interim report in accordance with the provisions

of 5.74 to 5.84 in respect of either the period up to the old accounting reference date or the period up to a date not more than six (6) months prior to the new accounting reference date.

### *Corporate Governance*

- 5.92 For the purposes of this section:  
“national law” means the law of the country where the registered office of the Issuer is established.  
An Issuer whose securities are Admitted to Trading on a Regulated Market operating in Malta shall prepare a corporate governance statement in terms of Capital Markets Rule 5.97.
- 5.93 This section is not applicable to Collective Investment Schemes, other than the closed-ended type.
- 5.94 An Issuer registered in Malta and having securities Admitted to Trading on a Regulated Market operating in Malta should endeavour to adopt the Code of Principles of Good Corporate Governance contained in Appendix 5.1 to this Chapter and shall prepare a report explaining how it has complied with the provisions of the said Appendix. The same rule shall also apply to an Issuer whose securities are only Admitted to Trading on a Regulated Market in Malta.
- 5.95 An Issuer not registered in Malta but whose securities are Admitted to Trading on a Regulated Market operating in Malta as well as on a Regulated Market operating in one or more EEA States shall have the option to report on its compliance either with Appendix 5.1 or with any other code of corporate governance to which it may be subject.
- 5.96 An Issuer not registered in Malta but whose securities are Admitted to Trading on a market operating in a non-EEA state as well as on a Regulated Market operating in Malta shall report on its compliance with the code of corporate governance to which it is subject and highlight, in its report, the significant ways in which its corporate governance regime differs from Appendix 5.1, unless the MFSA determines otherwise following the submission of an application by such Issuer to that effect.
- 5.97 Issuers shall include in a specific section of their Annual Financial Report a corporate governance statement which shall contain at least the following information:
- 5.97.1 a reference to the corporate governance code to which the Issuer is subject; and/or a reference to the corporate governance code which it may have voluntarily decided to apply, together with an indication of the place where the texts are available to the public; and/or
  - 5.97.2 all relevant information about the corporate governance practices applied beyond the requirements under national law;
  - 5.97.3 to the extent to which an Issuer departs from a corporate governance code referred to in Capital Markets Rule 5.97.1, an explanation by the Issuer as to which parts of the corporate governance code it has departed from and the reasons for doing so and where the Issuer has decided not to apply

- any provisions of a corporate governance code referred to in Capital Markets Rule 5.97.1, it shall explain its reasons for doing so;
- 5.97.4 a description of the main features of the Issuer's internal control and risk management systems in relation to the financial reporting process;
- 5.97.5 the information referred to in Capital Markets Rules 5.64.3, 5.64.4, 5.64.6, 5.64.8 and 5.64.9, where the Issuer is subject to Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids;
- 5.97.6 the manner in which the general meeting is conducted and its key powers together with a description of shareholders' rights and how they can be exercised; and
- 5.97.7 the composition and operation of the board of Directors or equivalent body, of the audit committee and of any other committee that may be established by the board.
- 5.97.8 a description of the diversity policy applied in relation to the Issuer's board of directors or equivalent administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case. This requirement applies only to large companies, as defined in paragraph 1 of Part 1 of the Third Schedule of the CA which, on their balance sheet date, have more than an average number of 500 employees during the financial year.
- 5.98 The Issuer's Auditors are to include a report in the Annual Financial Report to shareholders on the corporate governance statement.
- 5.99 An Issuer may elect to set out the information required by Capital Markets Rule 5.97 in a separate report published together with the annual report or by means of a reference in the annual report where such document is publicly available on the Issuer's website. In the event of a separate report, the corporate governance statement may contain a reference to the annual report where the information required in Capital Markets Rules 5.97.4 and 5.97.5 is made available and shall also include the Auditors' report in terms of Capital Markets Rule 5.98.
- 5.100 The Auditor's report referred to in Capital Markets Rule 5.98 shall express an opinion as to whether, in light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, the auditor has identified material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, and shall give an indication of the nature of any such misstatements. For the remaining information that is required to be disclosed under Capital Markets Rule 5.97, the Auditors shall check that such information has been provided.
- 5.101 Issuers that only issue Securities other than Equity Securities shall be exempt from the requirement to disclose in their corporate governance statement the information prescribed by Capital Markets Rules 5.97.1 to 5.97.3, 5.97.6 and 5.97.8, unless such Issuers have issued Equity Securities which are traded in a multilateral trading facility in terms of Article 4(1), point (15) of Directive 2004/39/EC.

5.102 No person may act as a Director of an issuer of a listed security if the person concerned is already acting as a director, partner or employee and is authorised to provide investment advice and/or portfolio management in terms of Part B of the Investment Services Rules for Investment Services Providers in an entity licenced in terms of the Investments Services Act.

5.103 Without prejudice to the requirement of Capital Markets Rule 5.102, a Director of an Issuer who is also a director of an entity licenced in terms of the Investments Services Act, shall not discuss with or provide any information relating to the securities or the affairs of:

5.103.1 the Issuer of which s/he is a director, or

5.103.2 any other Issuer of a listed security which has a close business relationship with the Issuer of which s/he is a director;

to any director, partner or employee who is authorised to provide investment advice and/or portfolio management services in the same entity licenced in terms of the Investments Services Act of which the Director of an Issuer is also a director.

*Disclosure of service contracts entered into between the Issuer and its Directors*

5.104 Copies of service contracts entered into by Directors with the Issuer shall be made available for inspection by any person entitled to receive notice of general meetings:

5.104.1 at the place of the annual general meeting for at least fifteen (15) minutes prior to and during the meeting; and

5.104.2 at the registered or head office of the Issuer.

5.105 Directors' service contracts available for inspection must disclose or have attached to them the following information;

5.105.1 the name of the contracting parties;

5.105.2 the date of the contract, the unexpired term and details of any notice periods;

5.105.3 full particulars of the Directors' emoluments, including salary and all other benefits;

5.105.4 any commission or profit sharing arrangements;

5.105.5 any provision for compensation payable upon early termination of the contract; and

5.105.6 details of any other arrangements which are necessary to enable investors to estimate the possible liability of the Issuer upon early termination of the contract.

*Transactions by Directors and Officers of Issuers*

5.106 Subject to Capital Markets Rule 5.105 below, an Issuer must require:

5.106.1 its Directors or Directors of its Subsidiary or Parent Undertaking; and

5.106.2 any of its Officers or employees or an Officer or employee of its Subsidiary or Parent Undertaking who, because of his office or employment in the Issuer or Subsidiary Undertaking or Parent Undertaking, is likely to be in possession of unpublished price-sensitive information in relation to the Issuer

(hereinafter referred to as “Restricted Persons”)

to comply with an internal code of dealing which must be no less exacting than those of Capital Markets Rules 5.109 to 5.116 below and must take all proper and reasonable steps to ensure such compliance.

5.107 Capital Markets Rule 5.106 does not apply if such dealings are entered into by such persons:

5.107.1 in the ordinary course of business by a Securities dealing business; or

5.107.2 on behalf of third parties by the Issuer or any other member of its Group.

5.108 Issuers may impose more rigorous restrictions upon dealings by Restricted Persons if they so wish.

5.109 A Restricted Person shall not deal directly or indirectly in any of the Securities of the Issuer:

5.109.1 at any time when he is in possession of unpublished price-sensitive information in relation to those Securities;

5.109.2 prior to the Announcement of matters of an exceptional nature involving unpublished price-sensitive information in relation to the market price of the Securities of the Issuer;

5.109.3 on considerations of a short-term nature;

5.109.4 without giving advance written notice to the Chairman, or one or more other Directors designated for this purpose. In his own case, the Chairman, or such other designated Director, shall not deal without giving advance notice to the board of Directors of such Company or any other designated Director as appropriate;

5.109.5 during such other period as may be established by the MFSA from time to time.

5.110 The same restrictions apply to dealings by a Restricted Person in the Securities of any other Issuer when, by virtue of his position in the Issuer, he is in possession of unpublished price-sensitive information in relation to those Securities.

5.111 During the period of thirty (30) days immediately preceding any publication of the Issuer’s annual results, or the half-yearly results or the quarterly basis reports, a Restricted Person shall not purchase any Securities of the Issuer nor shall he sell any such Securities. The Issuer may allow a Restricted Person to trade on its own account or for the account of a third party during a closed period either:

(a) on a case-by-case basis due to the existence of exceptional circumstances, such as severe financial difficulty, which require the immediate sale of shares; or

(b) due to the characteristics of the trading involved for transactions made under, or related to, an employee share or saving scheme, qualification or entitlement of



shares, or transactions where the beneficial interest in the relevant security does not change.

- 5.112 If the approval of the MFSA to deal in exceptional circumstances has been granted, the Issuer must notify the MFSA of such deals immediately after these have been concluded.
- 5.113 The restrictions on dealings contained in this Chapter shall be regarded as equally applicable to any dealings by any Connected Person or any Investment Manager acting on behalf of a Restricted Person or on behalf of any Connected Person where either he or any Connected Person has funds under management with that investment Manager, whether on a discretionary basis or not. It is the duty of the Restricted Person (as far as is consistent with his duties of confidentiality to his Company) to seek to prohibit any such dealing by any Connected Person at a time when he himself is not free to deal.
- 5.114 Where a Restricted Person is acting as a trustee, dealing in the Securities of the Issuer by that trustee is permitted during the period referred to in Capital Markets Rule 5.111 where:
- 5.114.1 the Restricted Person is not a beneficiary of the trust; and
  - 5.114.2 the decision to deal is taken by the other trustees or by investment managers on behalf of the trustees independently of the Restricted Person.
- 5.115 The other trustees or investment managers acting on behalf of the trustees will be assumed to have acted independently of the Restricted Person for the purpose of Capital Markets Rule 5.114.2 where they:
- 5.115.1 have taken the decision to deal without consultation with, or other involvement of, the Restricted Person; or
  - 5.115.2 if they have delegated the decision making to a committee of which the Restricted Person is not a member.
- 5.116 No dealings in any Securities may be effected by or on behalf of an Issuer or any other member of its Group at a time when, under the provisions of this Chapter, a Director of the Issuer would be prohibited from dealing in its Securities, unless such dealings are entered into:
- 5.116.1 in the ordinary course of business by a Securities dealing business; or
  - 5.116.2 on behalf of third parties by the Issuer or any other member of its Group.

#### *Audit Committee*

- 5.117 The Issuer shall establish and maintain an audit committee which satisfies the following criteria:
- 5.117.1 it should be composed entirely of non-executive Directors and having at least three (3) members;
  - 5.117.2 the majority of such members shall be independent of the Issuer;

- 5.117.3 at least one member of the audit committee shall be competent in accounting and/or auditing; and
- 5.117.4 the chairman of the audit committee shall be appointed by the board of directors of the Issuer and shall be independent of the Issuer.
- 5.118 It shall be the responsibility of the Board to determine who of the Directors satisfy the competence and independence criteria set out in Capital Markets Rule 5.117. The Board shall also ensure that the committee members as a whole have competence relevant to the sector in which the Issuer is operating.
- 5.118A The corporate governance statement required under Capital Markets Rule 5.97 shall clearly indicate the independent members and the member/s competent in accounting and/or auditing together with the reasons why these members are considered by the Board as independent and competent in accounting and/or auditing. In the said corporate governance statement the Board shall also include the reasons why it considers that the committee members as a whole have the relevant competence as required in Capital Markets Rule 5.118 above.
- 5.119 For the purposes of this section a Director shall be considered independent only if he is free of any business, family, or other relationship with the Issuer, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgement. The Board of the Issuer shall take into account the following situations when determining the independence or otherwise of a director:
  - 5.119.1 whether the director has been an executive officer or employee of the Issuer or a subsidiary or parent of the Issuer, as the case may be, within the last three years;
  - 5.119.2 whether the director has, or has had within the last three years, a significant business relationship with the Issuer either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Issuer;
  - 5.119.3 whether the director has received or receives significant additional remuneration from the Issuer or any member of the Group of which the Issuer forms part in addition to a director's fee, such as participation in the Issuer's share option or a performance-related pay scheme, or membership of the Issuer's pension scheme, except where the benefits are fixed;
  - 5.119.4 whether he has close family ties with any of the Issuer's executive Directors or senior employees;
  - 5.119.5 whether he has served on the Board of the Issuer for more than twelve consecutive years; or
  - 5.119.6 whether he is or has been within the last three years an engagement partner or a member of the audit team of the present or former external auditor of the Issuer or any member of the group of which the Issuer forms part.
- 5.120 For the purposes of Capital Markets Rule 5.119.2 "business relationship" includes the situation of a significant supplier of goods or services (including financial, legal,

advisory or consulting services), of a significant customer, and of organisations that receive significant contributions from the Issuer or its group.

- 5.121 In addition to anything contained in the Memorandum or Articles of Association of the Issuer relating to the nomination and appointment of Directors, when the Board of the Issuer is receiving nominations for Directors and none of the persons nominated satisfy the independence and competence criteria referred to in Capital Markets Rule 5.117, the Board may nominate a person that satisfies these requirements.
- 5.122 If none of the persons elected as Directors of the Issuer satisfy the independence and competence criteria prescribed by Capital Markets Rule 5.117, the Board shall have the right to appoint an additional Director that satisfies the said criteria. This right may only be exercised as long as there is a vacancy in the Board and provided the maximum number of Directors stipulated by the Memorandum and Articles of Association of the Issuer is not exceeded.
- 5.123 The obligation to establish an audit committee shall not apply to:
- 5.123.1 an Issuer of Debt Securities which is a Subsidiary Undertaking provided that an audit committee which is compliant with these Capital Markets Rules and which the MFSa considers to be satisfactory is set up at the ultimate Parent Undertaking;
  - 5.123.2 an Issuer which is a UCITS as defined in Article 1 (2) of Directive 2009/65/EC of the European Parliament and of the Council or an alternative investment fund as defined in Article 4 (1) (a) of Directive 2011/61/EU of the European Parliament and of the Council;
  - 5.123.3 an Issuer the sole business of which is to issue asset backed securities, provided that the Issuer explains to the public, by means of a Company Announcement, the reasons for which it considers it inappropriate to have an audit committee;
- 5.124 For the purposes of Capital Markets Rule 5.123.4, “asset backed securities” means securities which:
- 5.124.1 represent an interest in assets, including any rights intended to assure servicing, or the receipt or timeliness of receipts by holders of assets, of amounts payable thereunder; or
  - 5.124.2 are secured by assets and the terms of which provide for payments which relate to payments or reasonable projections of payments calculated by reference to identified or identifiable assets.
- 5.125 *Omissis*
- 5.126 The primary purpose of the audit committee is to protect the interests of the company’s shareholders and assist the Directors in conducting their role effectively so that the company’s decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.
- 5.127 Without prejudice to Capital Markets Rule 5.117, the Issuer shall determine the terms of reference, life span, composition, role and function of such committee and

shall establish, maintain and develop appropriate reporting procedures, provided that the main role and responsibilities of the audit committee shall include:

- 5.172.1A informing the Board of Directors of the Issuer of the outcome of the statutory audit and explaining how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;
  - 5.127.1 monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity;
  - 5.127.2 monitoring of the effectiveness of the company's internal quality control and risk managements system and, where applicable, its internal audit, regarding the financial reporting of the Issuer, without breaching its independence;
  - 5.127.3 monitoring of the audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26 (6) of the Statutory Audit Regulation;
  - 5.127.4 reviewing the additional report prepared by the statutory auditor/s or audit firm/s submitted to the Audit Committee in terms of Article 11 of the Statutory Audit Regulation. The Audit Committee may disclose the additional report to third parties in order to execute its functions in line with the terms of reference;
  - 5.127.5 reviewing and monitoring the independence of the statutory auditors or the audit firms in accordance with Articles 22, 22a, 22b, 24a and 24b of the Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, amending Council Directive 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC and Article 6 of the Statutory Audit Regulation and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of the Statutory Audit Regulation;
  - 5.127.6 the responsibility for the procedure for the selection of statutory auditor/s or audit firm/s;
  - 5.127.7 recommending the statutory auditor/s or the audit firm/s to be appointed in accordance with Article 16 of the Statutory Audit Regulation.
- 5.128 The Issuer shall ensure that the Audit Committee establishes internal procedures and shall monitor these on a regular basis.
- 5.129 The external Auditor shall report to the audit committee on key matters arising from the audit, and in particular on material weaknesses in internal control in relation to the financial reporting process.
- 5.130 The audit committee shall establish and maintain access between the internal and external Auditors of the Company and shall ensure that this is open and constructive.
- 5.131 The audit committee shall meet at least four times a year. The head of Internal Audit should attend the meetings of this Committee.
- 5.132 When the audit committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on

action needed to address the issue or make improvements. The Board shall satisfy itself that any issues raised by the audit committee and the external Auditor and communicated to the Board have been adequately addressed.

- 5.133 The Issuer shall inform the MFSA how the audit committee is constituted, identifying clearly that independent member of the committee who is competent in accounting and/or auditing as required by Capital Markets Rule 5.117 and providing the reasons why such member is deemed to satisfy the independence and competence criteria set out in the said Capital Markets Rule. The Issuer shall also provide the MFSA with the terms of reference of the audit committee and shall inform the MFSA, without delay, of any changes to the above.
- 5.134 The terms of reference of the audit committee should provide sufficient guarantees and safeguards for the protection of the rights of shareholders and particularly with respect to related party transactions. They should also prohibit any member of the audit committee who has a direct or indirect interest in any contract, transaction or arrangement that is brought before the committee from being present at, and from voting, at any meeting of the committee during which such contract, transaction or arrangement is being discussed.
- 5.134A In so far as the requirements relating to the audit committee are concerned, an Issuer shall also refer to and comply with the relevant provisions of the Statutory Audit Regulation, in particular with Articles 16 and 17 of Title III of the said Regulation, relating to the appointment of statutory auditors or audit firms.

#### *Transactions with Related Parties*

##### *General*

- 5.135 Capital Markets Rules 5.136 to 5.142 set out safeguards that apply to transactions and arrangements between an Issuer and a Related Party, which transactions must be entered into at arm's length and on a normal, commercial basis. Such safeguards are intended to prevent a Related Party from taking advantage of its position and also to prevent any perception that it may have done so.
- 5.136 In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely the legal form.
- 5.137 The following are not necessarily related parties:
- 5.137.1 two entities simply because they have a Director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity;
  - 5.137.2 two venturers simply because they share joint control over a joint venture;
  - 5.137.3 providers of finance, trade unions, public utilities, and government departments and agencies of a government that does not control, jointly control or significant influence the reporting entity; simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process); and

- 5.137.4 a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

*The role of the audit committee with respect to related party transactions<sup>1</sup>*

- 5.138 The audit committee of the Issuer or any other committee established by the Issuer that satisfies the composition requirements prescribed by Capital Markets Rule 5.117 shall be responsible for vetting and approving related party transactions. Any reference in this part to the audit committee shall be deemed to include a reference to such other committee that the Issuer may set up in terms of this Capital Markets Rule.
- 5.139 Where the Issuer sets up a committee, other than the audit committee, to carry out the functions referred to in Capital Markets Rule 5.127, the said committee shall provide the MFSA with its terms of reference, which terms of reference have to comply with the requirements of Capital Markets Rule 5.134.
- 5.140 The audit committee shall give due consideration to:
- 5.140.1 whether the transaction is a Material Related Party Transaction;
  - 5.140.2 whether the transaction is in the ordinary course of the Issuer's business or the business of any its Subsidiary Undertakings as applicable;
  - 5.140.3 whether the transaction gives rise to preferential treatment to the Related Party;
  - 5.140.4 the nature of the transaction;
  - 5.140.5 the position of the related party;
  - 5.140.6 the influence that the information about the transaction may have on the economic decisions of shareholders of the issuer;
  - 5.140.7 the risk that the transaction creates for the issuer and its shareholders who are not a related party, including minority shareholders;
- 5.141 Should the audit committee, after considering the proposed related party transaction as laid down in Capital Markets Rule 5.140, deem the proposed transaction to be material and approves such a transaction, such Material Related Party Transaction shall be approved by the board of directors of the Issuer and a Company Announcement containing the below information shall be published:

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<sup>1</sup> These requirements are without prejudice to the rules on public disclosure of inside information as referred to in Article 17 of Regulation (EU) No 596/2014 of the European Parliament and of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ L 173, 12.6.2014, p. 1).

- 5.141.1 the nature and details of the transaction;
  - 5.141.2 the name of the Related Party concerned; and
  - 5.141.3 details of the nature and extent of the interest of the Related Party in the transaction, including the date and value of the transaction and other information necessary to assess whether or not the transaction is fair and reasonable from the perspective of the Issuer and of the shareholders who are not a related party, including minority shareholders.
5. 141A Where the related party transactions involves a director, the respective director shall not take part in the approval of the vote.
- 5.142 Where the proposed Material Related Party Transaction is not approved by the audit committee but the board of directors of the Issuer still wants to proceed with the transaction, the Issuer shall:
- 5.142.1 make a Company Announcement which shall contain:
    - 5.142.1.1 the nature and details of the transaction;
    - 5.142.1.2 the name of the Related Party concerned; and
    - 5.142.1.3 details of the nature and extent of the interest of the Related Party in the transaction, including the date and value of the transaction and other information necessary to assess whether or not the transaction is fair and reasonable from the perspective of the Issuer and of the shareholders who are not a related party, including minority shareholders; and
    - 5.142.1.4 the fact that the Material Related Party transaction has not been approved by the Audit Committee including the reasons for not approving such a transaction.
  - 5.142.2 send a Circular to its shareholders containing the information required by Capital Markets Rule 6.17; and
  - 5.142.3 obtain the approval of its shareholders either prior to the transaction being entered into or, if it is expressed to be conditional on such approval, prior to completion of the transaction and, where applicable, ensure that the Related Party itself abstains from voting on the relevant resolution. The board of directors of the Issuer shall disclose the fact that the audit committee has not approved the related party transaction in question at the general meeting convened for the purpose of this Capital Markets Rule.
- 5.142A An Issuer shall ensure that material transactions concluded between the related party of the Issuer and the Issuer's subsidiary are publicly disclosed through the issue of a Company Announcement. The disclosure requirements outlined under Capital Markets Rule 5.141 shall apply.
- 5.142B The disclosure requirements under Capital Markets Rule 5.141 and Capital Markets Rule 5.142 are without prejudice to the rules on public disclosure of inside information as referred to in Article 17 of Regulation (EU) No 596/2014 on Market Abuse.

### *Exemptions*

- 5.143 The rules dealing with related party transactions shall not apply in the following cases:-
- 5.143.1 transactions offered to all shareholders on the same terms where equal treatment of all shareholders and protection of the interests of the company is ensured.
- 5.143.2 the transaction:
- 5.143.2.1 involves the receipt of any asset (including cash or Securities of the Issuer or any of its Subsidiary Undertakings) by a Director of the Issuer, its Parent Undertaking or any of its Subsidiary Undertakings; or
- 5.143.2.2 is a grant of an option or other right to a Director of the Issuer, its Parent Undertaking, or any of its Subsidiary Undertakings to acquire (whether or not for consideration) any asset (including cash or new or existing Securities of the Issuer or any of its Subsidiary Undertakings);
- in accordance with the terms of either an employee share scheme or a long-term incentive scheme;
- 5.143.3 the transaction is a grant of credit (including the lending of money or the guaranteeing of a loan):
- 5.143.3.1 to the Related Party upon normal commercial terms;
- 5.143.3.2 to a Director for an amount and on terms no more favourable than those offered to employees of the Group generally; or
- 5.143.3.3 by the Related Party upon normal commercial terms and on an unsecured basis.
- 5.143.4 the transaction is the grant of an indemnity to a Director of the Issuer (or any of its Subsidiary Undertakings) to the extent not prohibited by Article 148 of the CA, or the maintenance of a contract of insurance to the extent contemplated by that article (whether for a Director of the Issuer or for a Director of any of its Subsidiary Undertakings);
- 5.143.5 the transaction is an underwriting by the Related Party of all or part of an issue of Securities by the Issuer (or any of its Subsidiary Undertakings) and the consideration to be paid by the Issuer (or any of its Subsidiary Undertakings) in respect of such underwriting is no more than the usual commercial underwriting consideration and is the same as that to be paid to the other underwriters (if any);
- 5.143.6 the terms and circumstances of the investment or provision of finance by the Issuer, or any of its Subsidiary Undertakings are, in the opinion of an independent adviser acceptable to the MFSA, no less favourable than those applicable to the investment or provision of finance by the Related Party;



5.143.7 Transactions regarding remuneration of directors, awarded in accordance with the right to vote on the remuneration policy provisions under Chapter 12 of the Capital Markets Rules.

5.143A The requirements set out in Capital Markets Rules 5.141 to 5.142A shall not apply to transactions entered into in the ordinary course of business and concluded on normal market terms.

*Reporting requirement*

5.144 The Issuer shall disclose all related party transactions *ex post facto* in the Annual Financial Report.

*Memorandum and Articles of Association*

5.145 The Articles of Association of all Issuers seeking authorisation for Admissibility to listing must conform with the provisions set out in Appendix 5.2 and obtain the prior authorisation by the MFSA. Only in very exceptional circumstances will the MFSA grant exemption from compliance with any of the provisions of Appendix 5.2

5.146 An Issuer shall not amend its Memorandum and Articles of Association unless prior written authorisation has been sought and obtained from the MFSA.

5.147 If authorisation for the amendment to the Memorandum and Articles of Association is granted by the MFSA, the Issuer must send a Circular to its shareholders containing the information prescribed by Capital Markets Rule 6.16.

*Acquisitions and Realisations*

5.148 In this section (except where specifically provided to the contrary) a reference to a transaction entered into by an Issuer:

5.148.1 includes all agreements (including amendments to agreements) entered into by the Issuer or its Subsidiary Undertakings;

5.148.2 excludes a transaction in the ordinary course of business;

5.148.3 excludes any transaction between the Issuer and its wholly-owned Subsidiary Undertakings or between its wholly-owned Subsidiary Undertakings.

*Classification of acquisitions and realisations*

5.149 Acquisitions and realisations shall be classified as follows:-

5.149.1 Class 1 transaction: where any of the tests mentioned in Capital Markets Rule 5.151 amount to five percent (5%) but less than thirty-five percent (35%); or

5.149.2 Class 2 transaction: where any of the tests mentioned in Capital Markets Rule 5.151 amount to thirty-five percent (35%) or more.

*Class tests*

- 5.150 In order to classify acquisitions and realisations the following class tests will be used:
- 5.150.1 the gross assets test;
  - 5.150.2 the profits test; and
  - 5.150.3 the consideration test.

*The gross assets test*

- 5.151 The gross assets test shall be calculated by dividing the gross assets the subject of the transaction by the gross assets of the Issuer. For the purposes of this Capital Markets Rule, “the gross assets of the Issuer” means the total non-current assets, plus the total current assets, of the Issuer.

- 5.152 In the case of:

- 5.152.1 an acquisition of an interest in an undertaking which will result in the consolidation of the assets of that undertaking in the accounts of the Issuer; or
- 5.152.2 a disposal of an interest in an undertaking which will result in the assets of that undertaking no longer being consolidated in the accounts of the Issuer;

the “gross assets the subject of the transaction” means the value of 100% of that undertaking’s assets irrespective of what interest is acquired or disposed of.

- 5.153 For an acquisition or disposal of an interest in an undertaking which does not fall within Capital Markets Rule 5.152, the “gross assets the subject of the transaction” means:

- 5.153.1 for an acquisition, the consideration together with liabilities assumed (if any); and
- 5.153.2 for a disposal, the assets attributed to that interest in the Issuer’s accounts.

- 5.154 If assets, other than an interest in an undertaking, are acquired, “the assets the subject of the transaction” means the consideration or, if greater, the book value of those assets as they will be included in the Issuer’s balance sheet.

- 5.155 In the case of a disposal of assets other than an interest in an undertaking, “the assets the subject of the transaction” means the book value of the assets in the Issuer’s balance sheet.

*The profits test*

- 5.156 The profits test is calculated by dividing the profits attributable to the assets the subject of the transaction by the profits of the Issuer. For the purposes of this Capital Markets Rule “profits” means profits after deducting all charges except taxation and, in the case of an acquisition or disposal of an interest in an undertaking referred to in Capital Markets Rule 5.152, 100% of the profits of the undertaking (irrespective of what interest is acquired or disposed of).

*The consideration test*

- 5.157 The consideration test is calculated by taking the consideration for the transaction as a percentage of the aggregate Market Value of all the ordinary Shares of the Issuer. The figure used to determine market capitalisation is the aggregate Market Value of all the ordinary Shares of the Issuer at the close of business on the last day before prior to the date when the transaction has been agreed to.
- 5.158 For the purposes of Capital Markets Rule 5.157:
- 5.158.1 the consideration is the amount paid to the contracting party;
  - 5.158.2 if all or part of the consideration is in the form of Securities to be traded on a market, the consideration attributable to those Securities is the aggregate Market Value of those Securities; and
  - 5.158.3 if deferred consideration is or may be payable or receivable by the Issuer in the future, the consideration is the maximum total consideration payable or receivable under the agreement.
- 5.159 For the purposes of Capital Markets Rule 5.158.2, the figures used to determine consideration consisting of:
- 5.159.1 Securities of a Class already listed, must be the aggregate Market Value of all those Securities on the last Business Day before the announcement; and
  - 5.159.2 a new Class of Securities for which an application for Admissibility to Listing will be made, must be the expected aggregate Market Value of all those Securities.
- 5.160 If the total consideration is not subject to a maximum (and the other class tests indicate the transaction to be a class 1 transaction) the transaction is to be treated as a class 2 transaction.

*Acquisitions and disposals of Property*

- 5.161 Acquisitions and disposals of Property by an Issuer (including any transactions or arrangements the purpose of which is to change, in whole or in part, the beneficial ownership of Property) are subject to the rules contained in this section save as indicated below:
- 5.161.1 for the purposes of Capital Markets Rule 5.150.1 (the gross assets test), the assets test is calculated by dividing the transaction consideration by the gross assets of the Issuer and Capital Markets Rules 5.154 and 5.155 do not apply;
  - 5.161.2 for the purposes of Capital Markets Rule 5.150.1 (the gross assets test), if the transaction is an acquisition of land to be developed, the assets test is calculated by dividing the transaction consideration and any financial commitments relating to the development by the gross assets of the Issuer;
  - 5.161.3 for the purposes of Capital Markets Rule 5.150.1, the “gross assets of the Issuer” are, at the option of the Issuer:

- 5.161.3.1 the aggregate of the Issuer's share capital and reserves (excluding minority interests);
- 5.161.3.2 the book value of the Issuer's Properties (excluding those Properties classified as current assets in the latest published Annual Accounts); or
- 5.161.3.3 the published valuation of the Issuer's Properties (excluding those Properties classified as current assets in the latest published Annual Accounts);
- 5.161.4 for the purposes of Capital Markets Rule 5.150.2 (the profits test), "profits" means the net annual rental income; and
- 5.161.5 the test referred to in Capital Markets Rule 5.150.3 shall not apply but when any of the consideration for an acquisition is in Shares, an alternative test will be applied comparing the Shares to be issued with the number of Shares in issue.

*Notification requirements*

5.162 In the case of a Class 1 transaction, the Issuer shall make a Company Announcement as soon as possible after the terms of the transaction are agreed.

5.163 In the case of a Class 2 transaction, the Issuer must:

- 5.163.1 issue a Company Announcement in the manner laid down by Capital Markets Rule 5.162.
- 5.163.2 send an explanatory Circular to its shareholders and obtain their prior approval in a general meeting for the transaction; and
- 5.163.3 ensure that any agreement effecting the transaction is conditional on that approval being obtained.

Provided that Issuers without Equity Securities authorised as Admissible to Listing shall only be required to comply with Capital Markets Rule 5.163.1 when proposing to enter into a Class 2 transaction.

5.164 The Company Announcement referred to in Capital Markets Rules 5.162 and 5.163 must include:

- 5.164.1 details of the transaction, including particulars of dates, parties, terms and conditions, general nature of contract, the name of the receiving notary, where applicable;
- 5.164.2 a description of the business carried on by, or using, the net assets the subject of the transaction;
- 5.164.3 the consideration, and how it is being satisfied (including the terms of any arrangements for deferred consideration);
- 5.164.4 the value of the gross assets the subject of the transaction;
- 5.164.5 the profits attributable to the assets the subject of the transaction;
- 5.164.6 the effect of the transaction on the Issuer including any benefits which are expected to accrue to the Issuer as a result of the transaction;

- 5.164.7 for a disposal, the application of the sale proceeds;
  - 5.164.8 for a disposal, if Securities are to form part of the consideration received, a statement whether the Securities are to be sold or retained; and
  - 5.164.9 details of key individuals important to the business or company the subject of the transaction.
- 5.165 If, at any time subsequent to any Company Announcements made in terms of Capital Markets Rules 5.162 or 5.163, the Issuer has become aware that there has been a significant change affecting any matter contained in the Announcement or a significant new matter has arisen which would have been required to be mentioned in that Announcement if it had arisen at the time of making such Announcement, the Issuer must make another Company Announcement.
- 5.166 The supplementary Company Announcement must give details of the change or new matter and also contain a statement that, except as disclosed, there has been no significant change affecting any matter contained in the earlier Announcement and no other significant new matter has arisen which would have been required to be mentioned in that earlier Announcement if it had arisen at the time of preparation of that Announcement.
- 5.167 In Capital Markets Rules 5.165 and 5.166, “significant” means significant for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the rights attaching to any Securities forming part of the consideration. It includes a change in the terms of the transaction such that affects the percentage ratios and requires the transaction to be reclassified.
- 5.168 The Circular referred to in Capital Markets Rule 5.163.2 must comply with the requirements of Capital Markets Rules 6.18 to 6.22.
- 5.169 If, after the production of a Circular and before the completion of a Class 2 transaction, there is a material change to the terms of the transaction, the Issuer must comply again separately with Capital Markets Rule 5.163 in relation to the transaction.
- 5.170 In deciding whether a Circular should be sent to shareholders, the MFSA may aggregate acquisitions or realisations that have taken place since either the publication of the last Accounts, or the issue of the last Circular, whichever is the later during the twelve (12) months prior to the date of the latest transaction. Such aggregated transactions may then be treated as if they were one transaction if they were all completed within a short period of time, and the total of transactions is thirty-five percent (35%) or more as defined in Capital Markets Rule 5.149.2. For these purposes, the value of transactions in respect of which adequate information has already been issued to shareholders will be included in the net tangible assets or profits of the Issuer for comparison with the transaction or transactions under consideration. In case of doubt as to aggregation, the MFSA should be consulted at an early stage.
- 5.171 Without prejudice to the generality of Capital Markets Rule 5.170, transactions will normally only be aggregated in accordance with that provision if they:

- 5.171.1 are entered into by the Issuer with the same party or with parties connected with one another; or
  - 5.171.2 involve the acquisition or disposal of Securities or an interest in one particular Company; or
  - 5.171.3 together lead to substantial involvement in a business activity which did not previously form part of the Issuer's principal activities.
- 5.172 If, under Capital Markets Rule 5.170, aggregation results in a class test of thirty-five percent (35%) or more which would require Shareholder approval in terms of Capital Markets Rule 8.105, such approval is required only for the latest transaction.
- 5.173 Notwithstanding Capital Markets Rule 5.170, where acquisitions are entered into since either the publication of the last Accounts or the issue of the last Circular, whichever is the later, which cumulatively amount to thirty-five percent (35%) or more in any of the percentage ratios, the provisions outlined in Capital Markets Rule 5.163 may apply.

*Transactions Involving Substantial Shareholdings*

- 5.174 This Capital Markets Rule shall regulate the activities of an Issuer whenever it is advised or otherwise becomes aware of an impending share negotiation or transaction involving a Substantial Shareholding.

Substantial Shareholding shall for the purposes of this Rule mean the entitlement to exercise or control the exercise of ten percent (10%) or more of the votes able to be cast at general meetings or the entitlement to appoint a majority of Directors on the board of Directors of an Issuer.

- 5.174.1 All parties to an offer for an acquisition or disposal of a Substantial Shareholding in an Issuer as well as the Issuer must use every endeavour to prevent the creation of a false market in the securities of the Issuer. All parties involved in an offer for an acquisition or disposal of a Substantial Shareholding in an Issuer and the Issuer must take care that statements are not made which may mislead shareholders or the market.
- 5.174.2 Without prejudice to Capital Markets Rule 5.16, an Issuer must promptly make a Company Announcement:
  - 5.174.2.1 when the board of Directors of the Issuer is advised or otherwise becomes aware that a purchaser is being sought for a Substantial Shareholding in the Issuer;
  - 5.174.2.2 when the Issuer is the subject of rumour and speculation;
  - 5.174.2.3 when the board of Directors of the Issuer is advised or otherwise becomes aware of a firm intention to acquire or dispose of a Substantial Shareholding in the Issuer;
  - 5.174.2.4 when the board of Directors of the Issuer is advised or otherwise becomes aware that an offer has been made to acquire or dispose of a Substantial Shareholding in the Issuer.

- 5.174.3 Without prejudice to any applicable privacy or secrecy obligations in terms of law, an Issuer may furnish in confidence to a bona fide offeror and the corresponding bona fide transferor such information including unpublished price-sensitive information as may be necessary to enable the bona fide offeror, the bona fide transferor and their advisers to make, confirm, withdraw or modify the offer, provided that such disclosure of information may only be furnished subject to the following conditions:
- 5.174.3.1 the express consent of the Company in general meeting by an ordinary resolution of the Company unless the memorandum or articles of the Company require an extraordinary resolution, to make such disclosure of information to bona fide offerors. Such consent may, but need not, be limited to a specific prospective offeror(s);
  - 5.174.3.2 the signing of a confidentiality agreement signed by the prospective transferor and the prospective offeror(s) to prevent the disclosure and use of the information furnished, other than for the purpose of the acquisition of the Substantial Shareholding in the Issuer;
  - 5.174.3.3 an undertaking from the prospective offeror(s) whereby they bind themselves not to deal in the Issuer's shares or any derivative instrument relating thereto, whether directly or indirectly, for a period of one year following completion of the transaction or termination thereof or discontinuance or withdrawal, other than to complete the transaction that prompted the disclosure of information hereunder;
  - 5.174.3.4 an undertaking from the prospective transferor that it acknowledges that the information received from the Issuer cannot be used or communicated other than for the purposes of a transaction in the shares that are the subject of the offer, whether wholly or in part, whether with the prospective offeror(s) or otherwise, and that it cannot deal in other shares of the Issuer for a period of one year following completion of the transaction or termination thereof or discontinuance or withdrawal.
- 5.174.4 When the transaction that prompted the furnishing of information in confidence is completed the Issuer shall make a Company Announcement disclosing the outcome of negotiations relating to the acquisition or disposal of a Substantial Shareholding in the Issuer, including the price at which the Substantial Shareholding was acquired or disposed of.
- 5.174.5 When the transaction that prompted the furnishing of information in confidence is not completed and the Issuer is advised or otherwise becomes aware of such non completion, the Issuer shall make a Company Announcement disclosing the outcome of negotiations.
- 5.174.6 In the event that the transaction that prompted the furnishing of information in confidence is completed, a purchaser which has had access to information in confidence in terms of this Capital Markets Rule shall be prohibited from acquiring further securities in the Issuer or from

disposing of securities in the Issuer, whether directly or indirectly for a period of one year from the date of acquisition.

5.174.7 In the event that the transaction that prompted the furnishing of information in confidence is not completed, a bona fide offeror which has had access to information in confidence in terms of this Capital Markets Rule shall be prohibited from acquiring securities in the Issuer, whether directly or indirectly, for a period of one year following termination thereof or discontinuance or withdrawal, other than to complete the transaction that prompted the disclosure of information hereunder.

5.174.8 Regardless of the outcome of the transaction, the purchaser or the bona fide offeror, as the case may be, shall, immediately following completion of the transaction or termination thereof or discontinuance or withdrawal, notify the Issuer to that effect and return all the information furnished by the Issuer and shall take prompt action to cancel, delete or destroy such information furnished by the Issuer that cannot be returned.

*Notification of the acquisition or disposal of major holdings to which voting rights are attached.*

5.175 Where the Home Member State is Malta and as soon as a shareholder acquires 5% or more of the Issuer's shares to which voting rights are attached, the Issuer shall immediately inform the shareholder of his obligation to notify the Issuer and the MFSA of any changes in major holdings in terms of Capital Markets Rules 5.176 to 5.214.

5.176 Any Shareholder who acquires or disposes shares to which voting rights are attached and where the Home Member State is Malta, shall notify the Issuer and the MFSA of the proportion of voting rights of the Issuer held by such Shareholder as a result of the acquisition or disposal where that proportion reaches, exceeds or falls below the thresholds of 5%, 10%, 15% 20%, 25%, 30%, 50%, 75% and 90%.

5.177 The voting rights shall be calculated on the basis of all the shares to which voting rights are attached even if the exercise thereof is suspended.

5.178 This information shall also be given in respect of all the shares which are in the same Class and to which voting rights are attached.

5.179 The Issuer and the MFSA shall also be notified in terms of Capital Markets Rule 5.176 when the proportion reaches, exceeds or falls below the thresholds specified in the same Capital Markets Rule, as a result of events changing the breakdown of voting rights.

5.180 The threshold referred to in Capital Markets Rule 5.176 shall be calculated on the basis of the information made available to the public by the Issuer at the end of each calendar month, of the total number of voting rights and capital, during which an increase or decrease of such total number has occurred.

5.181 Where the Issuer is incorporated or registered in a non-EU or EEA State, the notification shall be made for equivalent events.



5.182 The notification requirement defined in Capital Markets Rule 5.176 shall also apply to a natural person or Legal Entity who:

5.182.1 is entitled to acquire, to dispose of, or to exercise voting rights in any of the following cases or a combination of them:

5.182.1.1 voting rights held by a third party with whom that person or entity has concluded an agreement, which obliges them to adopt, by concerted exercise of the voting rights they hold, a lasting common policy towards the management of the Issuer in question;

5.182.1.2 voting rights held by a third party under an agreement concluded with that person or entity providing for the temporary transfer for consideration of the voting rights in question;

5.182.1.3 voting rights attaching to shares which are lodged as collateral with that person or entity, provided the person or entity controls the voting rights and declares its intention of exercising them;

5.182.1.4 voting rights attaching to shares in which that person or entity has the right of usufruct;

5.182.1.5 voting rights which are held, or may be exercised within the meaning of Capital Markets Rule 5.182.1.1 to 5.182.1.4 above, by an undertaking controlled by that person or entity;

5.182.1.6 voting rights attaching to shares deposited with that person or entity which the person or entity can exercise at its discretion in the absence of specific instructions from the shareholders;

5.182.1.7 voting rights held by a third party in its own name on behalf of that person or entity;

5.182.1.8 voting rights which that person or entity may exercise as a proxy where the person or entity can exercise the voting rights at its discretion in the absence of specific instructions from the shareholders.

5.183 The obligation to notify the Issuer in terms of Capital Markets Rule 5.176 shall be an individual obligation incumbent upon each shareholder, or each natural person or Legal Entity as referred to in Capital Markets Rule 5.182, or both in case the proportion of voting rights held by each party reaches, exceeds or falls below the thresholds laid down in Capital Markets Rule 5.176. In the circumstances, however, referred to in Capital Markets Rule 5.182.1.1 the said notification obligation shall be a collective obligation shared by all the parties to the agreement.

5.184 In the circumstances referred to in Capital Markets Rule 5.182.1.8, if a shareholder gives the proxy in relation to one shareholder meeting, notification may be made by means of a single notification when the proxy is given provided it is made clear in the notification what the resulting situation in terms of voting rights will be when the proxy may no longer exercise the voting rights at its discretion.

- 5.185 If in the circumstances referred to in Capital Markets Rule 5.182.1.8 the proxy holder receives one or several proxies in relation to one shareholder meeting, notification may be made by means of a single notification on or after the deadline for receiving proxies provided that it is made clear in the notification what the resulting situation in terms of voting rights will be when the proxy may no longer exercise the voting rights at its discretion.
- 5.186 When the duty to make notification lies with more than one natural person or Legal Entity, notification may be made by means of a single common notification but this does not release any of those persons from their responsibilities in relation to the notification.
- 5.187 A natural or Legal Entity shall make a notification in terms of Capital Markets Rule 5.176 in respect of the following financial instruments held by such person, directly or indirectly:
- 5.187.1 financial instruments that, on maturity, give the holder, under a formal agreement, either the unconditional right to acquire or the discretion as to his right to acquire, shares to which voting rights are attached, already issued, of an issuer whose shares are admitted to trading on a regulated market;
- 5.187.2 financial instruments which are not included in Capital Markets Rule 5.187.1 but which are referenced to shares and which have the economic effect similar to the financial instruments referred to in Capital Markets Rule 5.187.1, whether or not they confer a right to a physical settlement.
- 5.187A The notification required shall include the breakdown by type of financial instruments held in accordance with Capital Markets Rules 5.187.1 and 5.187.2, distinguishing between the financial instruments which confer a right to a physical settlement and the financial instruments which confer a right to a cash settlement.
- 5.187B The number of voting rights shall be calculated by reference to the full notional amount of shares underlying the financial instrument except where the financial instrument provides exclusively for a cash settlement, in which case the number of voting rights shall be calculated on a “delta-adjusted” basis, by multiplying the notional amount of underlying shares by the delta of the instrument. For this purpose, the holder shall aggregate and notify all financial instruments relating to the same underlying issuer. Only long positions shall be taken into account for the calculation of voting rights. Long positions shall not be netted with short positions relating to the same underlying issuer.
- 5.188 For the purposes of Capital Markets Rule 5.187:  
“qualifying financial instruments” means transferable securities and options, futures, swaps, forward rate agreements, contracts for differences, any other contracts or agreements with similar economic effects which may be settled physically or in cash.  
“formal agreement” means an agreement which is binding under applicable law.
- 5.189 The exemptions laid down in Capital Markets Rules 5.196, 5.199.1, 5.199.3, 5.200, 5.204, 5.206 and 5.208 shall apply *mutatis mutandis* to the notification requirements under Capital Markets Rule 5.187.

- 5.190 If a qualifying financial instrument relates to more than one underlying share, a separate notification shall be made to each Issuer of the underlying shares.
- 5.190A The notification required shall also apply to natural person and Legal Entity when the number of voting rights held directly or indirectly by such person or entity under Capital Markets Rules 5.176 and 5.182 aggregated with the number of voting rights relating to financial instruments held directly or indirectly under Capital Markets Rule 5.187 reaches, exceeds or falls below the thresholds set out in Capital Markets Rule 5.176.
- 5.191 The notification required under Capital Markets Rule 5.176 and 5.182 shall include the following information:
- 5.191.1 the resulting position in terms of voting rights;
  - 5.191.2 the chain of Controlled Undertakings through which voting rights and/or financial instruments are effectively held, if applicable;
  - 5.191.3 the date on which the threshold was reached or crossed;
  - 5.191.4 the identity of the person entitled to exercise voting rights, even if that person is not entitled to exercise voting rights under the conditions laid down in Capital Markets Rule 5.182.
  - 5.191.5 for instruments with an exercise period:
    - 5.191.5.1 an indication of the date or time period where shares will or can be acquired, if applicable;
    - 5.191.5.2 the date of maturity or expiration of the instrument;
    - 5.191.5.3 name of the underlying Issuer.
- 5.191A The notification required under Capital Markets Rule 5.190A shall include a breakdown of the number of voting rights attached to shares held in accordance with Capital Markets Rules 5.176 and 5.182 and voting rights relating to financial instruments in terms of Capital Markets Rule 5.187.
- 5.191B Voting rights relating to financial instruments that have already been notified in accordance with Capital Markets Rule 5.187 shall be notified again when the natural person or the Legal Entity has acquired the underlying shares and such acquisition results in the total number of voting rights attached to shares issued by the same issuer reaching or exceeding the thresholds laid down by Capital Markets Rule 5.176.
- 5.192 For the purposes of the notification referred to in Capital Markets Rule 5.191, the resulting position in terms of voting rights shall be calculated by reference to the total number of voting rights and capital as last disclosed by the Issuer in terms of Capital Markets Rule 5.16.9.
- 5.193 The notification that is required to be made to the Issuer in terms of Capital Markets Rule 5.176 shall be effected promptly, but not later than four trading days following the date on which the shareholder, or the natural or Legal Entity representing the shareholder:
- 5.193.1 learns of the acquisition or disposal or of the possibility of exercising voting rights, or on which, having regard to the circumstances, should

have learned of it, regardless of the date on which the acquisition, disposal or possibility of exercising voting rights takes effect; or

- 5.193.2 is informed about the events changing the breakdown of voting rights.
- 5.194 For the purposes of Capital Markets Rule 5.193.1, the shareholder, or the natural person or Legal Entity representing the shareholder shall be deemed to have knowledge of the acquisition, disposal or possibility to exercise voting rights no later than two trading days following the transaction in question.
- 5.195 Notwithstanding Capital Markets Rule 5.193, a Shareholder shall notify the Issuer by not later than 1 May 2007, of the proportion of voting rights and capital it holds in accordance with Capital Markets Rule 5.176 and 5.187 with Issuers at that date, unless it has already made a notification containing equivalent information.
- 5.196 An undertaking, being a shareholder of an Issuer, shall be exempted from notifying the Issuer of any changes in its holding as required under Capital Markets Rule 5.176 if the notification is made by its Parent Undertaking or, where the Parent Undertaking is itself a Controlled Undertaking, by its own Parent Undertaking.
- 5.197 Upon receipt of the notification in terms of Capital Markets Rule 5.176 but no later than three trading days thereafter, the Issuer shall make the notification available to the public and shall make a Company Announcement including all the information contained in the notification.
- 5.198 *Omissis*
- 5.199 Capital Markets Rule 5.176 shall not apply to:
- 5.199.1 shares acquired for the sole purpose of clearing and settling within the usual short settlement cycle not exceeding three trading days following the execution of the transaction;
- 5.199.2 shares held by Custodians in their Custodian capacity provided such Custodians can only exercise the voting rights attached to such shares under instructions given in writing or by electronic means.
- 5.199.3 acquisitions or disposal of a major holding reaching or crossing the 5% threshold by a Market Maker acting in its capacity of a Market Maker and complying with the conditions and operating requirements set out in Capital Markets Rule 5.200
- 5.199.4 shares provided to or by the members of the European System of Central Banks in carrying out their functions as monetary authorities, including shares provided to or by members of the European System of Central Banks under a pledge or repurchase or similar agreement for liquidity granted for monetary policy purposes or within a payment system.
- Provided that the above shall apply with regards to transactions lasting for a short period and the voting rights attaching to such shares are not exercised.
- 5.200 A Market Maker shall be exempted in terms of Capital Markets Rule 5.199.3 provided that, such Market Maker:
- 5.200.1 is authorised by its home member state under Directive 2004/39/EC;

- 5.200.2 does not intervene in the management of the Issuer concerned;
  - 5.200.3 does not exert any influence on the Issuer to buy such shares or back the share price; and
  - 5.200.4 notifies the MFSA within the time limit laid down in Capital Markets Rule 5.193 that it conducts or intends to conduct market making activities on a particular Issuer.
- 5.201 Where the Market Maker ceases to conduct market making activities on the Issuer concerned, it shall notify the MFSA accordingly.
- 5.202 The MFSA may require the Market Maker undertaking market making activities with respect to Securities of an Issuer whose Home Member State is Malta, as referred to in Capital Markets Rule 5.199.3, to identify the shares or financial instruments held for market making activity purposes, in which case the Market Maker may make such identification by any verifiable means.
- 5.203 If the Market Maker is unable to identify the shares or financial instruments concerned, the MFSA may require him to hold them in a separate account for identification purposes.
- 5.204 Voting rights held in the trading book, as defined in Article 11 of Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions, of a credit institution or investment firm shall not be counted for the purposes of Capital Markets Rule 5.176 provided that:
- 5.204.1 the voting rights held in the trading book do not exceed 5%; and
  - 5.204.2 the voting rights attached to shares held in the trading book are not exercised or otherwise used to intervene in the management of the Issuer.
- 5.204A Voting rights attached to shares acquired for stabilisation purposes in accordance with Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC as regards exemptions for buy-back programmes and stabilisation of financial instruments, shall not be counted for the purposes of Capital Markets Rule 5.176 provided the voting rights attached to those shares are not exercised or otherwise used to intervene in the management of the issuer.

*Notification by management companies and investment firms*

- 5.205 For the purposes of Capital Markets Rules 5.206.1 and 5.208.3 “direct instruction” and “indirect” instruction” shall have the following meaning:
- “direct instruction” means any instruction given by the Parent Undertaking, or another Controlled Undertaking of the Parent Undertaking, specifying how the voting rights are to be exercised by the management company or investment firm in particular cases;
- “indirect instruction” means any general or particular instruction, regardless of the form, given by the Parent Undertaking, or another Controlled Undertaking of the Parent Undertaking, that limits the discretion of the Management Company or

investment firm in relation to the exercise of the voting rights in order to serve specific business interests of the Parent Undertaking or another Controlled Undertaking of the Parent Undertaking.

- 5.206 The Parent Undertaking of a Management Company shall not be required to aggregate its holdings with the holdings managed by the Management Company under the conditions laid down in Directive 85/611/EEC, provided that:
- 5.206.1 it does not interfere by giving direct or indirect instructions or it does not interfere in any other way in the exercise of the voting rights held by that management company; and
  - 5.206.2 the Management Company is free to exercise, independently of the parent undertaking, the voting rights attached to the assets it manages.
- 5.207 Where the parent undertaking, or another Controlled Undertaking of the parent undertaking, has invested in holdings managed by such management Company and the Management Company has no discretion to exercise the voting rights attached to such holdings and may only exercise such voting rights under direct or indirect instructions from the parent or another Controlled Undertaking of the parent undertaking, the holdings of the Parent Undertaking shall be aggregated with its holdings through the Management Company.
- 5.208 The Parent Undertaking of an investment firm authorised under Directive 2004/39/EC shall not be required to aggregate its holdings with the holdings which such investment firm manages on a client-by-client basis within the meaning of Article 4(1), point 9, of Directive 2004/39/EC provided that:
- 5.208.1 the investment firm is authorised to provide such portfolio management under point 4 of Section A of Annex I to Directive 2004/39/EC;
  - 5.208.2 it may only exercise the voting rights attached to such shares under instructions given in writing or by electronic means or it ensures that individual portfolio management services are conducted independently of any other services under conditions equivalent to those provided for under Directive 85/611/EEC by putting into place appropriate mechanisms;
  - 5.208.3 it does not interfere by giving direct or indirect instructions or it does not interfere in any other way in the exercise of the voting rights held by that investment firm; and
  - 5.208.4 the investment firm is free to exercise, independently of the parent undertaking, the voting rights attached to the assets it manages.
- 5.209 Where the parent undertaking, or another Controlled Undertaking of the parent undertaking, has invested in holdings managed by such investment firm and the investment firm has no discretion to exercise the voting rights attached to such holdings and may only exercise such voting rights under direct or indirect instructions from the parent or another Controlled Undertaking of the parent undertaking, the holdings of the Parent Undertaking shall be aggregated with its holdings through the investment firm.

- 5.210 A Parent Undertaking which does not aggregate its holdings in terms of Capital Markets Rules 5.206 or 5.208 shall, without delay, notify to the MFSA the following information:
- 5.210.1 a list of the names of those Management Companies and investment firms, indicating the competent authorities that supervise them or that no competent authority supervises them, but with no reference to the issuers concerned;
  - 5.210.2 in the case of a Management Company, a statement that the Parent Undertaking complies with the conditions laid down in Capital Markets Rules 5.206;
  - 5.210.3 in the case of an investment firm, a statement that the Parent Undertaking complies with the conditions laid down in Capital Markets Rules 5.208.3 and 5.208.4.
- 5.211 The Parent Undertaking shall update the list referred to in Capital Markets Rule 5.210.1 on an ongoing basis.
- 5.212 Where a Parent Undertaking intends to avail itself of the exemptions contained in Capital Markets Rules 5.206 or 5.208 only in relation to the financial instruments referred to in Capital Markets Rule 5.187, it shall notify to the MFSA only the list referred to in Capital Markets Rule 5.210.1.
- 5.213 The MFSA may request a Parent Undertaking of a Management Company or of an investment firm to demonstrate that:
- 5.213.1 the organisational structures of the Parent Undertaking and the management company or investment firm are such that the voting rights are exercised independently of the Parent Undertaking;
  - 5.213.2 the persons who decide how the voting rights are to be exercised act independently;
  - 5.213.3 if the Parent Undertaking is a client of its Management Company or investment firm or has holding in the assets managed by the management company or investment firm, there is a clear written mandate for an arms-length customer relationship between the Parent Undertaking and the management company or investment firm.
- 5.214 The Parent Undertaking shall be deemed to satisfy Capital Markets Rule 5.213 if as a minimum the Parent Undertaking and the Management company or investment firm have established written policies and procedures that are reasonably designed to prevent the distribution of information between the Parent Undertaking and the Management Company or investment firm in relation to the exercise of voting rights.

*Calendar of trading days*

- 5.215 For the purposes of Capital Markets Rules 5.16.10, 5.193 and 5.197, the calendar of trading days of the Home Member State of the Issuer shall apply.

- 5.216 The MFSA shall publish on its website the calendar of trading days of the different regulated markets situated or operating in Malta.

*Issuers registered in a non-EU or EEA State*

- 5.217 Where an Issuer is admitted to trading in Malta but its registered office is not in a Member or EEA State, the MFSA may exempt that Issuer from the requirements of the following Capital Markets Rules:

Capital Markets Rules

- 5.55 – 5.73 Annual Financial Report
- 5.74 – 5.85 Half-yearly Report
- 5.16.8 Notification of major holdings
- 5.16.9 Total number of voting rights
- 5.16.10 Proportion of the Issuer's holding in own equity
- 5.28 – 5.38 Information requirements

Provided that the MFSA considers that the Issuer is subject to equivalent legal requirements.

- 5.218 The Issuer, as referred to in Capital Markets Rule 5.217, shall file and disclose the equivalent information subject to the provisions of this Chapter.

*Equivalent Information*

*Requirements equivalent to the Directors' Report (Capital Markets Rule 5.55.1)*

- 5.219 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.55.1 where, under the law of that country, a report is required to be prepared which includes at least the following information:

- 5.219.1 a fair review of the development and performance of the Issuer's business and of its position, together with a description of the principal risks and uncertainties that it faces, such that the review presents a balanced and comprehensive analysis of the development and performance of the Issuer's business and of its position, consistent with the size and complexity of the business;
- 5.219.2 an indication of any important events that have occurred since the end of the financial year;
- 5.219.3 indications of the Issuer's likely future development.

- 5.220 For the purposes of Capital Markets Rule 5.219.1, the analysis required by that rule shall, to the extent necessary for an understanding of the Issuer's development,



performance or position, include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business.

*Requirements equivalent to the Interim Directors' Report (Capital Markets Rule 5.75.2)*

- 5.221 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.75.2 where, under the law of that country, an interim management report is required to be prepared together with a condensed set of financial statements and such report includes at least the following information:
- 5.221.1 a review of the period covered;
  - 5.221.2 indications of the Issuer's likely future development for the remaining six months of the financial year;
  - 5.221.3 for issuers of shares and if already not disclosed on an ongoing basis, major related parties transactions.

*Requirements equivalent to the Statements of Responsibility (Capital Markets Rules 5.55.2 and 5.75.3)*

- 5.222 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rules 5.55.2 and 5.75.3 where, under the law of that country, a person or persons within the Issuer are responsible for the annual and half-yearly financial information, and in particular for the following:
- 5.222.1 the compliance of the financial statements with the applicable reporting framework or set of accounting standards;
  - 5.222.2 the fairness of the management review included in the management report.

- 5.223 *Omissis*

*Requirements equivalent to the annual financial statements required to be prepared in terms of Capital Markets Rule 5.57*

- 5.224 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.57 where, under the law of that country, the provision of individual accounts by the parent company is not required but the Issuer whose registered office is in that non-EU or EEA State is required to include the following information in the consolidated accounts:
- 5.224.1 for Issuers of shares, dividends computation and ability to pay dividends;

5.224.2 for all Issuers, where applicable, minimum capital and equity requirements and liquidity issues.

Provided that such Issuer shall be able to provide the MFSA with additional audited disclosures giving information on the individual accounts of the Issuer as standalone, relevant to the elements of information referred to in Capital Markets Rules 5.224.1 and 5.224.2, which disclosures may be prepared under the accounting standards of the non-EU or EEA State in which the Issuer has its registered office.

*Requirements equivalent to the annual financial statements required to be prepared in terms of Capital Markets Rule 5.58*

5.225 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.58 where, under the law of that country, such Issuer is not required to prepare consolidated accounts but is required to prepare its individual financial statements in accordance with Generally Accepted Accounting Principles and Practice or with national accounting standards of the non-EU or EEA State in which the Issuer has its registered office if these are equivalent to Generally Accepted Accounting Principles and Practice.

5.226 If the individual financial statements are not considered by the MFSA to be equivalent in terms of Capital Markets Rule 5.225, such financial statements shall be presented in the form of restated financial statements.

5.227 Individual financial statements referred to in Capital Markets Rules 5.225 and 5.226 shall be audited independently.

5.228 An Issuer whose registered office is in a non-EU or EEA State shall be exempted from preparing its Annual Financial Report and half-yearly report in accordance with Capital Markets Rules 5.55 to 5.73 and 5.74 to 5.84 respectively, prior to the Financial Year starting on or after 1 January 2007, as long as such Issuer prepares its Annual Financial Report and half-yearly financial report in accordance with Generally Accepted Accounting Principles and Practice.

*Requirements equivalent to Capital Markets Rule 5.197*

5.229 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.197 where, under the law of that country, the time period within which such Issuer shall be notified of major holdings and within which it shall disclose those major holdings to the public is in total equal to or shorter than seven trading days.

5.230 In the case of an Issuer whose registered office is in a non-EU or EEA State, the time-frames for the notification of major holdings to the Issuer and for the subsequent disclosure to the public by the Issuer may be different from those set out in Capital Markets Rules 5.193 and 5.197.

*Requirements equivalent to the test of independence for Parent Undertakings of management companies and investment firms*

- 5.231 Undertakings whose registered office is not in a Member or EEA State which would have required an authorization in accordance with Article 5(1) of Directive 85/611/EEC or, with regard to portfolio management under point 4 of section A of Annex I to Directive 2004/39/EC if it had its registered office or, only in the case of an investment firm, its head office within the European Union, shall also be exempted from aggregating holdings with the holdings of its Parent Undertaking under the requirements laid down in Capital Markets Rules 5.206 and 5.208 provided that they comply with equivalent conditions of independence as management companies or investment firms.
- 5.232 The undertakings referred to in Capital Markets Rule 5.231 shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rules 5.206 to 5.209 where, under the law of that country, the Management Company or investment firm is required to meet the following conditions:
- 5.232.1 the Management Company or investment firm is required to be free in all situations to exercise, the voting rights attached to the assets it manages independently of its Parent Undertaking;
- 5.232.2 the Management Company or investment firm is required to disregard the interests of the Parent Undertaking or of any other Controlled Undertaking of the Parent Undertaking whenever conflicts of interest arise.
- 5.233 The Parent Undertaking of the Management Companies or investment firms referred to in Capital Markets Rule 5.232 shall comply with the notification requirements laid down in Capital Markets Rules 5.210.1 and 5.212 and shall also make a statement that, in the case of each management company or investment firm concerned, the Parent Undertaking complies with the conditions laid down in Capital Markets Rule 5.232 above.
- 5.234 The MFSA may request the Parent Undertaking of the Management Companies or investment firms referred to in Capital Markets Rule 5.232 to demonstrate that the requirements laid down in Capital Markets Rule 5.213 are satisfied.

*Requirements equivalent to Capital Markets Rule 5.16.10*

- 5.235 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.16.10 where, under the law of that country, the Issuer is required to comply with the following conditions:
- 5.235.1 in the case of an Issuer allowed to hold up to a maximum of 5 % of its own shares to which voting rights are attached, it is required to make a notification whenever that threshold is reached or crossed;
- 5.235.2 in the case of an Issuer allowed to hold up to a maximum of between 5 % and 10 % of its own shares to which voting rights are attached, it is

required to make a notification whenever the 5% threshold or that maximum threshold is reached or crossed;

- 5.235.3 in the case of an Issuer allowed to hold more than 10 % of its own shares to which voting rights are attached, it is required to make a notification whenever the 5 % threshold or the 10 % threshold is reached or crossed.

*Requirements equivalent to Capital Markets Rule 5.16.9*

- 5.236 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rule 5.16.9 where, under the law of that country, the Issuer is required to disclose to the public the total number of voting rights and capital within thirty (30) calendar days after an increase or decrease of such total number has occurred.

*Requirements equivalent to Capital Markets Rules 5.29.1 and 5.35.1*

- 5.237 An Issuer whose registered office is in a non-EU or EEA State shall be considered by the MFSA to be subject to equivalent requirements as those prescribed by Capital Markets Rules 5.29.1 and 5.35.1, as far as the content of the information about meetings is concerned, where, under the law of that country, the Issuer is required to provide at least information about the place, time and agenda of meetings.

*Uses of Languages*

- 5.238 When Malta is the Home Member State and securities are Admitted to Trading only in Malta, Regulated Information shall be disclosed in the English or Maltese language.
- 5.239 When Malta is the Home Member State and securities are Admitted to Trading in Malta and in one or more host Member or EEA State, the Regulated Information shall be disclosed:
- 5.239.1 in the English or in the Maltese language; and
- 5.239.2 depending on the choice of the Issuer, either in a language accepted by the regulatory authorities of those host Member or EEA States or in a language customary in the sphere of international finance.
- 5.240 When securities are Admitted to Trading in Malta as the host Member State, the Regulated Information shall be disclosed either in English or Maltese or in a language customary in the sphere of international finance.
- 5.241 When Malta is the Home Member State and securities are Admitted to Trading on a Regulated Market in one or more host Member or EEA States excluding Malta, the Regulated Information shall be disclosed either in English or Maltese or in a language customary in the sphere of international finance, depending on the choice of the Issuer.

- 5.242 Where securities are Admitted to Trading on a Regulated Market without the Issuer's consent, the obligation under Capital Markets Rules 5.238 to 5.241 shall be incumbent not upon the Issuer, but upon the person who, without the Issuer's consent, has requested such admission.
- 5.243 Shareholders and the natural persons or Legal Entities referred to in Capital Markets Rules 5.176, 5.182 and 5.187 shall notify information to an Issuer in a language customary in the sphere of international finance. In this case, the Issuer is not required to provide the MFSA with a translation of such notification.
- 5.244 Where securities whose denomination per unit amounts to at least hundred thousand euro (€100,000) or, in the case of Debt Securities denominated in a currency other than euro equivalent to at least hundred thousand euro (€100,000) at the date of the issue, are admitted to trading on a Regulated Market in one or more Member or EEA States, Regulated Information shall be disclosed to the public either in English or Maltese language or in a language customary in the sphere of international finance, at the choice of the Issuer or of the person who, without the Issuer's consent, has requested such admission.
- 5.245 If an action concerning the content of Regulated Information is brought before a court or tribunal in Malta, responsibility for the payment of costs incurred in the translation of that information for the purposes of the proceedings shall be decided in accordance with the Maltese law.

#### *Access to Regulated Information*

- 5.246 An Issuer or a person who has applied, without the Issuer's consent, for Admissibility to Listing on a Regulated Market shall file and disclose Regulated Information in the manner set out in Capital Markets Rules 5.247 to 5.258.

#### *Filing of Regulated Information with the MFSA and the Officially Appointed Mechanism*

- 5.247 An Issuer or a person who has applied, without the Issuer's consent, for Admissibility to Listing on a Regulated Market shall file Regulated Information with the MFSA and the Officially Appointed Mechanism at the same time such information is disclosed to the public in terms of Capital Markets Rule 5.248.

#### *Disclosure of Regulated Information to the public*

- 5.248 When disseminating Regulated Information an Issuer or other person who has applied, without the Issuer's consent, for Admissibility to Listing on a Regulated Market shall ensure that the minimum standards laid down in Capital Markets Rules 5.249 to 5.255 are observed.
- 5.249 Regulated Information shall be disseminated in a manner ensuring that it is capable of being disseminated to as wide a public as possible, and as close to simultaneously as possible in the Home Member State and in other Member or EEA States.

- 5.250 Regulated Information shall be communicated to the media in unedited full text, provided that in the case of the Annual Financial Report and the Half-yearly Report, this requirement shall be deemed to be fulfilled if the information communicated to the media indicates on which website, in addition to the Officially Appointed Mechanism for the central storage of Regulated Information, the relevant documents are available.
- 5.251 Regulated Information shall be communicated to the media in a manner which ensures the security of the communication, minimises the risk of data corruption and unauthorized access, and provides certainty as to the source of the Regulated Information. Security of receipt shall be ensured by remedying as soon as possible any failure or disruption in the communication of Regulated Information.
- 5.252 The Issuer or the person who has applied, without the Issuer's consent, for Admissibility to Listing on a Regulated Market, shall not be responsible for systemic errors or shortcomings in the media to which the Regulated Information has been communicated.
- 5.253 Regulated Information shall be communicated to the media in a way which:
- 5.253.1 makes it clear that the information is Regulated Information; and
  - 5.253.2 identifies clearly
    - 5.253.2.1 the Issuer concerned;
    - 5.253.2.2 the subject matter of the Regulated Information; and
    - 5.253.2.3 the time and date of the communication of the Regulated Information by the Issuer or the person who has applied for an admission to listing on a Regulated Market without the Issuer's consent.
- 5.254 In relation to any disclosure of Regulated Information, the MFSA may request from the Issuer or the person who has applied for Admissibility to Listing any embargo placed by the Issuer on the Regulated Information.
- 5.255 The Issuer or person who has applied for Admissibility to Listing on a Regulated Market without the Issuer's consent, shall not charge investors any specific cost for providing Regulated Information.
- 5.256 Where securities are Admitted to Trading on a Regulated Market in Malta and Malta is the only Host Member State, an Issuer or a person who has applied for Admissibility to Listing on a Regulated Market without the Issuer's consent, shall disclose Regulated Information in the same manner as prescribed in Capital Markets Rules 5.249 to 5.255.

*Disclosure of information in a non EU or EEA State*

- 5.257 The MFSA shall ensure that information, including Regulated Information, disclosed in a non EU or EEA State which may be of importance to the public in the Member or EEA States is disclosed in terms of Capital Markets Rules 5.249 to 5.255.

- 5.258 The language used to disclose information in terms of Capital Markets Rule 5.257 shall be determined in accordance with Capital Markets Rules 5.238 to 5.245.

*Transparency through the Company's web-site*

- 5.259 Issuers of Securities listed on a Regulated Market and Malta is the Home Member State, shall have a website. The homepage of the website shall include an easy to access 'investor information' section from which investors can obtain current information on the company.

- 5.260 The 'investor information' section on the homepage of the web-site of Issuers of Securities listed on a Regulated Market and Malta is the Home Member State shall include at least the following content, preferably by way of a drop-down menu:

5.260.1 Strategic Objectives: Company objectives and description of operations;

5.260.2 Company Structure: Information on listed entity including the amount of share capital, type of securities listed, the registered office of the company, as well as information on the parent and subsidiaries, if applicable, including shareholdings;

5.260.3 Corporate Governance: Details of the Directors, Chairman, Chief Executive Officer as well as information on the composition of the company's Audit Committee, providing details of the non-executive and independent members of the Audit Committee together with information on the member of the Audit Committee who is competent in accounting and/or auditing. This section should also include information on the Company's external auditors and on other committees relating to corporate governance established by the Company;

5.260.4 Company Notifications and Publications: Company announcements, press releases and links to other company publications (e.g. annual reports, prospectuses, corporate governance statement, Memorandum & Articles of association);

5.260.5 Financial Statements: Summary of the Company's latest financial statements and Group financial statements (where relevant) namely summary profit and loss, balance sheet and cash flow statements; comparative figures for two years should be shown;

5.260.6 Borrowings from the Financial Market: Updated details of borrowings from the financial market on a solo and (where applicable) aggregated on a Group basis, with information on related sinking funds; and

5.260.7 Investors Help Line: Contact persons, telephone numbers and web feedback.

- 5.261 *Omissis*

*Amalgamations*

- 5.262 The term “merger”, wherever used in these Capital Markets Rules, shall have the same meaning as that assigned to it by the CA or any subsidiary legislation issued thereunder.
- 5.263 In the case of mergers involving an Issuer, the latter shall, irrespective of the country in which it is registered, send an explanatory Circular to its shareholders containing the information required by Chapter 6 of these Capital Markets Rules..
- 5.264 The MFSA may dispense with any of the requirements prescribed by Chapter 6 for a Circular that has to be issued in respect of a merger if there is a conflict between such requirements and the law of the country in which the Issuer is registered.

*Employee Share Schemes and Directors’ Share-based Schemes*

- 5.265 Subject to Capital Markets Rule 5.271, the following schemes of an Issuer (and of any of its Subsidiary Undertakings even where that Subsidiary Undertaking is incorporated or operates overseas) must be approved by an ordinary resolution of the shareholders of the Issuer in general meeting prior to their adoption:
- 5.265.1 an employees’ share scheme; and
  - 5.265.2 any scheme under which Directors are remunerated in Shares, share options or any other right to acquire Shares or to be remunerated on the basis of Share price movements.
- 5.266 A resolution approving the adoption of an employee share scheme or a Directors’ share-based scheme under Capital Markets Rule 5.265 may authorise the Directors to establish further schemes based on any scheme which has previously been approved by shareholders but containing the necessary modifications, provided that any Shares made available under such further schemes are treated as counting against any limits on individual or overall participation in the main scheme.
- 5.267 The resolution approving the schemes referred to in Capital Markets Rule 5.265 shall be accompanied by an explanatory Circular containing the information prescribed by Chapter 6 of these Capital Markets Rules.

*Contents of Employee Share Schemes and Directors’ Share-based Schemes*

- 5.268 The schemes referred to in Capital Markets Rule 5.265 shall at least contain provisions relating to:
- 5.268.1 the persons to whom or for the benefit of whom Securities may be issued under the scheme (the “Participants”);
  - 5.268.2 the total amount of the Securities subject to the scheme together with the percentage of the issued Shares that it represents at the time;
  - 5.268.3 the fixed maximum entitlement for any one Participant;
  - 5.268.4 the amount, if any, payable on application or acceptance and the basis for determining the subscription or option price;
  - 5.268.5 the period in or after which payments or calls may be paid or called;



- 5.268.6 the voting, dividend, transfer and other rights, including those arising on a liquidation of the Issuer, attaching to the Securities and to any options, if appropriate. These rights must be drawn to the attention of Participants on their joining the scheme;
  - 5.268.7 the details, if any, of the Directors' trusteeship of the scheme or, if applicable, the interests of such Directors in the trustees of the scheme;
  - 5.268.8 the pension ability or otherwise of the benefits under the scheme and, if so, the reasons for this;
  - 5.268.9 the manner in which the Issuer intends to provide for the Shares needed to meet its obligations under the schemes together with a statement as to whether the Issuer intends to purchase the necessary Shares in the market, whether it holds them in treasury, or whether it will issue new Shares;
  - 5.268.10 costs of the scheme to the Issuer in view of the intended application; and
  - 5.268.11 the basis for determining a participant's entitlement to, and the terms of, Securities, cash or other benefits to be provided and for the adjustment thereof (if any) in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of Shares or reduction of capital or any other variation of capital (and for the avoidance of doubt, the issue of Securities as consideration for an acquisition will not be regarded as a circumstance requiring adjustment in accordance with the provisions of this Capital Markets Rule).
- 5.269 Any adjustments, other than those made on a capitalisation issue, must be confirmed in writing by the Issuer's Auditors to the Directors of the Issuer as being in their opinion fair and reasonable.
- 5.270 The resolution contained in the notice of the meeting accompanying the Circular referred to in Capital Markets Rule 5.267 must approve a specific scheme. In the case of Directors' share-based schemes, it should set out the relationship of such schemes with the overall Directors' remuneration policy.
- 5.271 The requirements of Capital Markets Rules 5.265 to 5.270 are not applicable to long-term incentive schemes where the only Participant is a Director (or proposed Director) of the Issuer and the arrangement is established specifically to facilitate, in exceptional circumstances, the recruitment or retention of the relevant individual. In these circumstances the following information must be disclosed in the first Annual Financial Report published by the Issuer following the date on which the relevant individual becomes eligible to participate in the arrangement:
- 5.271.1 the name of the sole Participant;
  - 5.271.2 the total amount of the Securities subject to the scheme together with the percentage of the issued Shares that it represents at the time;
  - 5.271.3 the date on which the Participant first became eligible to participate in the arrangement;
  - 5.271.4 an explanation of why the circumstances in which the arrangement was established were exceptional;
  - 5.271.5 the conditions to be satisfied under the terms of the arrangement; and

5.271.6 the maximum award(s) under the terms of the arrangement or, if there is no maximum, the basis on which awards will be determined.

5.272 For the purposes of Capital Markets Rule 5.271 the term “long-term incentive scheme” means any arrangement (other than a retirement benefit plan, a deferred bonus or any other arrangement that is an element of an executive Directors’ remuneration package) which may involve the receipt of any asset (including cash or any security) by a Director or employee of the Issuer or the Group of which the Issuer forms part that:

5.272.1 includes one or more conditions in respect of the service and/or performance to be satisfied over more than one financial year; and

5.272.2 pursuant to which the Issuer, or the Group of which the Issuer forms part may incur (other than in relation to the establishment and administration of the arrangement) either a cost or a liability, whether actual or contingent.

#### *Discounted Option Arrangements*

5.273 Subject to the provisions of Capital Markets Rule 5.274, an Issuer may not, without the prior approval by an ordinary resolution of its shareholders in general meeting, grant to a Director or employee of the Issuer or of any Subsidiary Undertaking of the Issuer an option to subscribe, warrant to subscribe or other similar right to subscribe for Shares in the capital of the Issuer or any of its Subsidiary Undertakings, if the price per Share payable on the exercise of such an option, warrant or other similar right to subscribe is less than whichever of the following is used to calculate the exercise price:

5.273.1 the Market value of the Share on the date when the exercise price is determined;

5.273.2 the Market value of the Share on the Business Day before such date; or

5.273.3 the average of the Market Values for a number of dealing days within a period not exceeding thirty (30) days immediately preceding such date.

5.274 The provisions of Capital Markets Rule 5.273 do not apply to the grant of an option to subscribe, warrant to subscribe or other similar right to subscribe for Shares in the capital of the Issuer or any of its Subsidiary Undertakings:

5.274.1 under an employee share scheme pursuant to the terms of which participation is offered on similar terms to all or substantially all employees of the Issuer or any of its Subsidiary Undertakings whose employees are entitled to participate in the scheme; or

5.274.2 following a take-over or reconstruction, in replacement for and on comparable terms with options to subscribe, warrants to subscribe or other similar rights to subscribe held immediately prior to the take-over or reconstruction in respect of Shares in either a Company of which the Issuer thereby obtains control or in any of that Company’s Subsidiary Undertakings.

5.275 Where shareholders' approval is required by Capital Markets Rule 5.273, the Issuer shall publish a Circular containing the information prescribed by Chapter 6 of these Capital Markets Rules.

## APPENDIX 5.1

### THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE

#### **PREAMBLE**

These principles are designed to enhance the legal, institutional and regulatory framework for good governance in the Maltese corporate sector. They thus complement the current provisions already in force in the Companies Act providing a comprehensive corporate governance framework based on the guidelines provided by the Organization for Economic Cooperation and Development.

These principles are targeting companies whose equity securities are admitted to listing on a Regulated Market but are not applicable to Collective Investment Schemes. Companies should endeavour to adopt these principles so as to provide proper incentives for the Board and management to pursue objectives that are in the interests of the Company and its shareholders. The principles should facilitate effective monitoring thereby encouraging issuers of equity securities to use resources more efficiently.

The adoption of these principles is expected:

- § to provide more transparent governance structures and improved relations within the market which should enhance market integrity and confidence;
- § to ensure proper transparency and disclosure of all dealings or transactions involving the Board, any Director, senior managers or Officers in a position of trust or other related party; and
- § to protect shareholders from the potential abuse of those entrusted with the direction and management of the Company by the setting up of structures that improve accountability to them.

The Code contains main and supporting principles and provisions. When preparing their corporate governance statement, listed companies should divide such statement in two parts. The first part should deal generally with the company's adherence to the main principles whilst the second part should deal specifically with non-compliance with any of the Code Provisions. The descriptions together should give shareholders a clear and comprehensive picture of a company's governance arrangements in relation to the Code as a criterion of good practice.

In relation to the requirement to state how it has applied the Code's main principles, where a company has done so by complying with the associated provisions (that is, the supporting principles and Code provisions) it should be sufficient simply to report that this is the case. Where a company has taken additional steps to apply the principles or otherwise improve its governance, it would be helpful to shareholders to describe these in the annual report.

If a company chooses not to comply with one or more of the Code provisions, it must give shareholders a careful and clear explanation which shareholders should evaluate on its merits. In providing an explanation, the company should aim to illustrate how its actual practices are consistent with the principle to which the particular Code provision relates and contribute to good governance.

While it is expected that listed companies will comply with the Code's provisions most of the time, it is recognised that departure from the provisions of the Code may be justified in

particular circumstances. Every company must review each provision carefully and give a considered explanation if it departs from the Code provisions.

## **1. THE BOARD**

### **Main principle**

Every listed Company should be headed by an effective board, which should lead and control the company.

### **Supporting principles**

- (i) Directors are stewards of a company`s assets and their behaviour should be focused on adding value to those assets by working with management to build a successful Company and enhance Shareholder value.
- (ii) All Directors are required to provide leadership, integrity and judgment in directing the company.
- (iii) Leadership can only come about if the Directors, individually and collectively, are of the appropriate calibre, with the necessary skills and experience to contribute effectively to the decision making process.

Directors should:

- (a) set the company`s values and standards in order to enhance and safeguard the interests of shareholders and third parties;
- (b) act with integrity and due diligence while discharging their duties as Directors and in particular in the decision and policy-making process of the company, which should be reflected in all company`s dealings and at every level of the organization;
- (c) exercise accountability to shareholders and be responsible to relevant stakeholders.

### **Code provisions**

- 1.1 The board should be composed of persons who are fit and proper to direct the business of the company. The concept of fit and proper requires Directors to conduct themselves with honesty, competence and integrity.
- 1.2 The shareholders, as the owners of the company, have the jurisdiction and discretion to appoint or remove Directors on the board. The process of appointment should be transparent and conducted at properly constituted general meetings where the views of the minority can be expressed.
- 1.3 All Directors should:
  - 1.3.1 exercise prudent and effective controls which enables risk to be assessed and managed in order to achieve continued prosperity of the company;
  - 1.3.2 be accountable for all actions or non-actions arising from discussion and actions taken by them or their delegates;
  - 1.3.3 determine the company`s strategic aims and the organizational structure;
  - 1.3.4 regularly review management performance and ensure that the Company has the appropriate mix of financial and human resources to meet its

objectives and improve the economic and commercial prosperity of the company;

- 1.3.5 acquire a broad knowledge of the business of the company;
- 1.3.6 be aware of and be conversant with the statutory and regulatory requirements connected to the business of the Company;
- 1.3.7 allocate sufficient time to perform their responsibilities; and
- 1.3.8 regularly attend meetings of the board.

- 1.4 In cases when a Director is unable to agree with a decision of the board because a proposed course of action is not deemed to be consonant with his statutory or fiduciary duties and responsibilities and all reasonable steps have been taken to resolve the issue, the Director may feel that resignation may be a better alternative to submission. In such instances, the shareholders are entitled to an honest account of any such disagreements between Directors.

## **2. CHAIRMAN AND CHIEF EXECUTIVE**

### **Main principle**

There should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the company's business. No one individual or small group of individuals should have unfettered powers of decision.

### **Supporting principles**

- (i) The Chairman has a pivotal role to play in helping the board achieve its full potential. He should allow every Director to play a full and constructive role in the affairs of the company. The separation of the roles of the Chairman and Chief Executive avoids concentration of authority and power in one individual and differentiates leadership of the board from the running of the business.
- (ii) The Chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.

### **Code provisions**

- 2.1 The position of the Chairman and that of the Chief Executive should be occupied by different individuals. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the board. Where the Chairman and the Chief Executive Officer are not different individuals, the Company should provide an explanation to the market and to its shareholders through a Company Announcement for the decision to combine the two roles.
- 2.2 The Chairman is responsible to:
  - 2.2.1 lead the board and set its agenda;

- 2.2.2 ensure that the Directors of the Board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company;
  - 2.2.3 ensure effective communication with shareholders;
  - 2.2.4 encourage active engagement by all members of the board for discussion of complex or contentious issues.
- 2.3 The Chairman should meet the independence criteria set out in supporting principle (v) below. A Chief Executive should not go on to be Chairman of the same company. If exceptionally a board decides that a Chief Executive should become Chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.

### **3. COMPOSITION OF THE BOARD**

#### **Main principle**

The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption. The board should be composed of executive and non-executive Directors, including independent non-executives.

#### **Supporting principles**

- (i) The board should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to properly complete their tasks.
- (ii) The board must understand and fully appreciate the business risk issues and key performance indicators affecting the ability of the Company to achieve its objectives.
- (iii) It is desirable that Listed Companies should have a minimum number of non-executive Directors sitting on the board in order to ensure a balance such that no individual or small group of individuals can dominate the board's decision making. The exact composition and balance on a board will depend on the circumstances and business of each enterprise but it is recommended that at least one third of board members are non-executive and the majority of these should be independent.
- (iv) A non-executive director is a director who is not engaged in the daily management of the company. A non-executive director has an important role in overseeing executive or managing directors and dealing with situations involving conflicts of interests. Non executive directors and executive directors have as board members the same duties and responsibilities in terms of law. However, as the non-executive directors are not involved in the day-to-day running of the business, they can bring fresh perspectives and contribute more objectively in supporting as well as constructively challenging and monitoring the management team.
- (v) The company should appoint non-executive directors of sufficient calibre whose independence and standing would offer a balance to the strength of character of a chairman. Where the roles of the chairman and chief executive officer are combined, it



is important that the non-executive directors are able to bring an independent judgment to bear on the various issues brought before the company.

- (vi) Non-executive Directors should be free from any business or other relationship which could interfere materially with the exercise of their independent and impartial judgment.
- (vii) A Director is considered to be independent when he is free from any business, family or other relationship - with the company, its controlling Shareholder or the management of either - that creates a conflict of interest such as to jeopardize exercise of his free judgment.
- (viii) The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.
- (ix) No one other than the committee chairman and members is entitled to be present at a meeting of the audit or remuneration committee, but others may attend at the invitation of the committee.
- (x) Non-executive Directors are expected to take an active role in:
  - (a) constructively challenging and help developing proposals on strategy;
  - (b) monitoring the reporting of performance;
  - (c) scrutinizing the performance of management in meeting agreed goals and objectives; and
  - (d) satisfying themselves on the integrity and financial information and that financial controls and risk management systems are well established

## **Code provisions**

- 3.1 Where the roles of the chairman and chief executive officer are combined, the board should appoint one of the independent non-executive directors to be the senior independent director to act a reference and coordination point for the requests and contributions of non-executive directors and, in particular, those who are independent pursuant to supporting principle (vi) under main principle 3.
- 3.2 The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:
  - 3.2.1 has been an executive officer or employee of the company or a subsidiary or parent of the company, as the case may be, within the last three years;
  - 3.2.2 has, or has had within the last three years, a significant business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
  - 3.2.3 has received or receives significant additional remuneration from the company or any member of the group of which the company forms part in

addition to a director's fee, such as participation in the company's share option or a performance-related pay scheme, or membership of the company's pension scheme, except where the benefits are fixed;

- 3.2.4 has close family ties with any of the company's executive directors or senior employees;
- 3.2.5 has served on the board for more than twelve consecutive years; or
- 3.2.6 is or has been within the last three years an engagement partner or a member of the audit team of the present or former external auditor of the company or any member of the group of which the company forms part.

For the purposes of Code Provision 3.2.2, "business relationship" includes the situation of a significant supplier of goods or services (including financial, legal, advisory or consulting services), of a significant customer, and of organisations that receive significant contributions from the company or its group.

- 3.3 Each Director should apply to his duties the necessary time and attention, and should undertake to limit the number of any Directorships held in other companies to such an extent that the proper performance of his duties is assured.
- 3.4 Every person who is appointed as a non-executive director shall declare in writing to the board that he undertakes:-
  - 3.4.1 to maintain in all circumstances his independence of analysis, decision and action;
  - 3.4.2 not to seek or accept any unreasonable advantages that could be considered as compromising his independence; and
  - 3.4.3 to clearly express his opposition in the event that he finds that a decision of the board may harm the company.
- 3.5 When the board has made decisions about which an independent non-executive director has serious reservations, he should draw all the appropriate consequences from this. If he were to resign, he should explain his reasons in a letter to the board or the audit committee, and – where appropriate – to any relevant body external to the company.

## **4. THE RESPONSIBILITIES OF THE BOARD**

### **Main principle**

The board has the first level responsibility of executing the four basic roles of corporate governance namely; accountability, monitoring, strategy formulation and policy development.

### **Supporting principles**

- (i) The Board should:
  - (a) regularly review and evaluate corporate strategy, major operational and financial plans, risk policy, performance objectives and monitor implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

- (b) apply high ethical standards and take into account the interests of stakeholders. Its members should act:
    - (i) responsibly for exercising independent objective judgment with the highest degree of integrity; and
    - (ii) on a fully informed basis in good faith with due diligence, and in the best interests of the Company and the shareholders.
  - (c) recognise that the company`s success depends upon its relationship with all groups of its stakeholders, including employees, suppliers, customers and the wider community in which the company operates. The board should maintain an effective dialogue with such groups in the best interests of the company;
  - (d) monitor the application by management of its policies;
  - (e) recognise and support enterprise and innovation within the management of the company. The board should examine how best to motivate Company management.
- (ii) A balance between enterprise and control in the company should be struck by the board.

### **Code provisions**

- 4.1 The board should ensure that its level of power is known by all Directors and the senior management of the company. Any delegation of responsibilities and functions should also be clear and unequivocal. Independently of any powers and functions that the Directors may from time to time validly delegate to management, it remains a fundamental responsibility of Directors to monitor effectively the implementation of strategy and policy by management.
- 4.2 The board should:
- 4.2.1 define in clear and concise terms, the company`s strategy, policies, management performance criteria and business policies which can be measured in a precise and tangible manner;
  - 4.2.2 establish a clear internal and external reporting system so that the board has continuous access to accurate, relevant and timely information such that the board can discharge its duties, exercise objective judgment on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the board;
  - 4.2.3 establish an Audit Committee in terms of Capital Markets Rules 5.117 – 5.134;
  - 4.2.4 continuously assess and monitor the company`s present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
  - 4.2.5 evaluate the management`s implementation of corporate strategy and financial objectives. The strategy, processes and policies adopted for implementation should be regularly reviewed by the board using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the enterprise;

- 4.2.6 ensure that the Company has appropriate policies and procedures in place to assure that the Company and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards;
  - 4.2.7 develop a succession policy for the future composition of the board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility.
- 4.3 The Board should organise regular information sessions to ensure that Directors are made aware of, inter alia;
- 4.3.1 their statutory and fiduciary duties;
  - 4.3.2 the company's operations and prospects;
  - 4.3.3 the skills and competence of senior management;
  - 4.3.4 the general business environment; and
  - 4.3.5 the board's expectations.
- 4.4 The board should assess regularly any circumstances, whether actual or potential, that could expose the Company or its Directors to risk, and take appropriate action.
- 4.5 The business risk and key performance indicators should be benchmarked against industry norms so that the company's performance can be effectively evaluated.
- 4.6 The board shall require management to constantly monitor performance and report to its satisfaction, at least on a quarterly basis, fully and accurately on the key performance indicators.
- 4.7 The board shall ensure that the financial statements of the Company and the annual audit thereof are completed within the stipulated time periods.

## **5. BOARD MEETINGS**

### **Main principle**

The board should meet regularly to discharge its duties effectively. Board members should be given ample opportunity during meetings to discuss issues set on the board agenda and convey their opinions.

### **Supporting principles**

- (i) The Chairman is primarily responsible for the efficient working of the board. He must ensure that all relevant issues are on the agenda supported by all available information.
- (ii) The board agenda should strike a balance between long-term strategic and shorter-term performance issues.

- (iii) In conducting board meetings, the Chairman should facilitate and encourage the presentation of views pertinent to the subject matter and should give all Directors every opportunity to contribute to relevant issues on the agenda.

### **Code provisions**

- 5.1 The board should set procedures to determine the frequency, purpose, conduct and duration of meetings and meet regularly in line with the nature and demands of the company's business.
- 5.2 The attendance of board members should be reported to shareholders at annual general meetings.
- 5.3 Notice of the dates of the forthcoming meetings together with the supporting material should be circulated well in advance to the Directors so that they have ample opportunity to appropriately consider the information prior to the next scheduled board meeting. Advance notice should be given of ad hoc meetings of the board to allow all Directors sufficient time to re-arrange their commitments in order to be able to participate.
- 5.4 After each board meeting and before the next meeting, minutes that faithfully record attendance and decisions should be prepared and should be circulated to all Directors as soon as practicable after the meeting.

## **6. INFORMATION AND PROFESSIONAL DEVELOPMENT**

### **Main principle**

The board should:

- appoint the Chief Executive Officer;
- actively participate in the appointment of senior management;
- ensure that there is adequate training in the Company for Directors, management and employees;
- establish a succession plan for senior management; and
- ensure that all Directors are supplied with precise, timely and clear information so that they can effectively contribute to board decisions.

### **Supporting principles**

- (i) Boards should actively consider the establishment and implementation of appropriate schemes to recruit, retain and motivate high quality executive officers and the management team.
- (ii) The Chairman should ensure that Board members continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on

the board and on board committees. The Company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.

- (iii) Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.
- (iv) The company secretary should be responsible for advising the board through the chairman on all governance matters.

### **Code provisions**

- 6.1 All new Directors should be offered a tailored induction programme on joining the board which covers to the extent necessary the company's organization and activities and his responsibilities as a Director.
- 6.2 The board should ensure that the Directors, especially non-executive Directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.
- 6.3 All Directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with.
- 6.4 The Chief Executive Officer should ensure that systems are in place:
  - 6.4.1 to provide for the development and training of the management and employees generally so that the Company remains competitive;
  - 6.4.2 to provide additional training for individual Directors where necessary;
  - 6.4.3 to monitor management and staff morale; and
  - 6.4.4 to establish a succession plan for senior management.
- 6.5 The Chief Executive Officer should be responsible for the recruitment and appointment of senior management.

## **7. EVALUATION OF THE BOARD'S PERFORMANCE**

### **Main principle**

The board should undertake an annual evaluation of its own performance and that of its committees.

### **Code provisions**

- 7.1 The board should appoint a committee chaired by a non-executive Director in order to carry out a performance evaluation of its role.

- 7.2 The committee is to report directly to the Chairman who should act on the results of the performance evaluation process in order to ascertain the strengths and to address the weaknesses of the board and to report to the board and, where appropriate, to the Annual General Meeting.
- 7.3 The non-executive Directors should be responsible for the evaluation of the Chairman, taking into account the views of the executive directors.
- 7.4 As part of the disclosure requirements in the annual report, the board should provide adequate information about its internal organization and including an indication of the extent to which the self-evaluation of the board has led to any material changes in the company's governance structures and organization.

## **8. COMMITTEES**

### **A Remuneration Committee**

For the purposes of this section the term “senior executive” shall mean any person reporting directly to the Board of Directors.

#### **Main principle**

The board should establish a remuneration policy for Directors and senior executives. It should also set up formal and transparent procedures for developing such a policy and for establishing the remuneration packages of individual Directors.

#### **Supporting principles**

- (i) The role of the Remuneration Committee referred to below is to devise the appropriate packages needed to attract, retain and motivate Directors, whether executive or not, as well as senior executives with the right qualities and skills for the proper management of the company. It should, however, avoid paying more than is necessary to secure the people with the appropriate skills and qualities. In carrying out this function the Remuneration Committee should judge where to position its Company relative to other companies in the marketplace.
- (ii) The Remuneration Committee's main duties are:
- (a) to make proposals to the board on the remuneration policy for Directors and senior executives;
  - (b) to make proposals to the board on the individual remuneration to be attributed to executive Directors, ensuring that they are consistent with the remuneration policy adopted by the Company and the evaluation of the performance of the Directors concerned;
  - (c) to monitor the level and structure of remuneration of the non-executive Directors on the basis of adequate information provided by the executive or managing Directors;
- (iii) The Committee:

- (a) may consult the Chairman and/or the Chief Executive Officer about proposals relating to the remuneration of other executive Directors;
  - (b) may avail itself of consultants who may be useful in providing the necessary information on market standards for remuneration systems; and
  - (c) should be responsible for establishing the selection, appointing and setting the terms of reference for any consultants who advise the Committee.
- (iv) No member of the Remuneration Committee shall be present while his remuneration is being discussed at a meeting of such Committee.

### **Code provisions**

- 8.A.1 The board of Directors should establish a Remuneration Committee composed of non-executive Directors with no personal financial interest other than as shareholders in the company, one of whom shall be independent and shall chair the Committee.
- 8.A.2 Where, however, the remuneration of Directors is not performance-related, the functions of the Remuneration Committee may be carried out by the board and in such case any reference to such Committee in this section shall be construed as a reference to the board of directors. For the purposes of this supporting principle “performance-related” remuneration includes share options and pension benefits, profit sharing arrangements and any other emolument payable to the Directors that is related to the performance of the Company in question.
- 8.A.3 The Remuneration Committee shall prepare a report which forms part of the annual report providing information regarding its membership, the number of meetings held, the attendance over the year and its main activities.
- 8.A.4 The annual report should contain a “Remuneration Statement” which discloses at least the following information:
- 8.A.4.1 the current remuneration policy of the Company, including profit-sharing, share options and pension benefits, as well as specific arrangements relating to the disclosure of information on performance, highlighting any significant changes in the Company’s remuneration policy as compared to the previous financial year as well as any changes that the Company intends to effect in its remuneration policy for the following financial year;
  - 8.A.4.2 an explanation of the relative importance of the variable and non-variable components of directors’ and/or senior executives’ remuneration;
  - 8.A.4.3 sufficient information on the performance criteria on which any entitlement to share options, shares or variable components of remuneration is based;
  - 8.A.4.4 sufficient information on the linkage between remuneration and performance;



- 8.A.4.5 the main parameters and rationale for any annual bonus scheme and any other non-cash benefits;
- 8.A.4.6 a description of the main characteristics of supplementary pension or early retirement schemes for Directors and/or senior executives;
- 8.A.4.7 a summary and an explanation of the Company's policy with regard to the terms and conditions of the contracts of executive Directors and senior executives including information on the duration of such contracts, the applicable notice periods and details of provisions for termination payments and other payments linked to early termination under the said contracts;
- 8.A.4.8 the total emoluments, whether in cash or otherwise, received by Directors from the Company or any other undertaking of the Group of which the Company forms part;
- 8.A.4.9 the total emoluments, whether in cash or otherwise, received by senior executives from the Company or any other undertaking of the Group of which the Company forms part;
- 8.A.4.10 the compensation paid or receivable by each former executive Director in connection with the termination of his activities during that financial year;
- 8.A.4.11 the compensation paid or receivable by each former senior executive in connection with the termination of his activities during that financial year;
- 8.A.4.12 with respect to shares and/or rights to acquire share options and/or all other share-incentive schemes:-
  - 8.A.4.12.1 the number of share options offered or shares granted by the Company or any other undertaking of the group of which the Company forms part during the relevant financial year and their conditions of application;
  - 8.A.4.12.2 the number of share options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;
  - 8.A.4.12.3 the number of share options unexercised at the end of the financial year, their exercise price, the exercise date and the main conditions for the exercise of the rights; and
  - 8.A.4.12.4 any change in the terms and conditions of existing share options occurring during the financial year; and
- 8.A.4.13 with respect to supplementary pension schemes:-
  - 8.A.4.13.1 when the pension scheme is a defined-benefit scheme, changes in the accrued benefits under that scheme during the relevant financial year; and
  - 8.A.4.13.2 when the scheme is a defined-contribution scheme, details of the total contributions paid or payable by the Company or any other undertaking of the Group of which

the Company forms part during the relevant financial year.

- 8.A.5 The company shall report separately on Code Provisions 8.A.4.8 and 8.A.4.9, and, in doing so, it shall divide the part dealing with the emoluments of directors and the other dealing with the emoluments of senior executives into four sections entitled “fixed remuneration”, “variable remuneration”, “share options” and “others”. The company may also provide an explanation on which items fall under one of the four categories of emoluments referred to herein.
- 8.A.6 Without prejudice to the requirements of Code Provision 8.A.2 the disclosure of any information in the Remuneration Statement shall not oblige the Company to disclose commercially sensitive information.

## **B Nomination Committee**

### **Main principle**

There should be a formal and transparent procedure for the appointment of new directors to the board. The procedure shall ensure, inter alia, adequate information on the personal and professional qualifications of the candidates.

### **Supporting principles**

- (i) Appointments to the board should be made on merit and against objective criteria. Care should be taken to ensure that appointees have enough time available to devote to the job. This is particularly important in the case of chairmanships.
- (ii) The functions of the Nomination Committee referred to below shall be:
- (a) to propose to the board candidates for the position of director, including those persons that are considered to be independent in terms of supporting principle (vii) under Principle 3, taking into account any recommendations in this regard received from shareholders;
  - (b) to periodically assess the structure, size, composition and performance of the board and make recommendations to the board with regard to any changes;
  - (c) to properly consider issues related to succession planning; and
  - (d) to review the policy of the Board for selection and appointment of senior management.
- (iii) The board of the company shall determine the terms of reference of the Nomination Committee.
- (iv) In performing its duties, the Nomination Committee should be able to use any forms of resources it deems appropriate, including external advice or advertising, and should receive appropriate funding from the company to this effect.

- (v) The Nomination Committee may invite Directors other than the committee members, Officers of the company or experts to attend meetings where appropriate to assist in the effective discharge of its duties.
- (vii) Whilst the Nomination Committee should try to achieve consensus on the recommendations it makes to the board, where such consensus cannot be achieved, decisions shall be made by a majority vote. In the event that a member or members of the Committee dissent(s) with the majority view on any particular matter, that member or member(s) (as the case may be) shall be entitled to make a dissenting report to the board setting out the reasons as to why they dissent from the majority opinion expressed in the Committee's recommendations.

### **Code provisions**

- 8.B.1 The board should establish a Nomination Committee to lead the process for board appointments and to make recommendations to it. Such committee should be composed entirely of Directors of the company. The majority of the members of the Nomination Committee shall be non-executive Directors, at least one of whom shall be independent.
- 8.B.2 No member of the Nomination Committee shall be present while his nomination as a director of the Company is discussed at a meeting of such Committee.
- 8.B.3 For any new appointment to the board, the skills, knowledge and experience already present and those needed on the board should be evaluated and, in the light of that evaluation, a description of the role and skills, experience and knowledge needed should be prepared by the Nomination Committee.
- 8.B.4 With respect to the appointment of the chairman, the Nomination Committee should prepare a job specification, including an assessment of the time commitment expected. A chairman's other significant commitments should be disclosed to the board before appointment and any changes to such commitments should be reported to the board as they arise.
- 8.B.4A The letter of appointment issued to non-executive Directors should set out the expected time commitment and non-executive Directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and subsequent changes should be notified to the board.
- 8.B.5 Any proposal for the appointment of a director by the general meeting of shareholders should be accompanied by a recommendation from the board, based on the advice of the Nomination Committee.
- 8.B.6 The lists of candidates to the office of director, accompanied by exhaustive information on the expertise and professional qualifications of the candidates with an indication, where appropriate, of their eligibility to qualify as independent and competent in accounting and/or auditing, shall be deposited at the Company's registered office at least fourteen (14) days prior to the date fixed for the Annual General Meeting.

- 8.B.7 A separate section of the annual report should describe the work of the Nomination Committee, including the process it has used in relation to board appointments.
- 8.B.8 The Nomination Committee shall periodically assess the skills, knowledge and experience of individual directors, and report on this to the board.

## **9. RELATIONS WITH SHAREHOLDERS AND WITH THE MARKET**

### **Main principle**

The board shall serve the legitimate interests of the company, account to shareholders fully and ensure that the Company communicates with the market effectively. The board should as far as possible be prepared to enter into a satisfactory dialogue with institutional shareholders and market intermediaries based on the mutual understanding of objectives. The board shall use the general meeting to communicate with shareholders.

### **Supporting principles**

- (i) The Company should provide the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions.
- (ii) Communication with the market is crucial for Listed Companies and the integrity of the market itself. The board should ensure that long-term strategic decisions are communicated where the Directors consider these to be in the best interests of the company.
- (iii) The board should endeavour to protect and enhance the interests of both the Company and its shareholders, present and future. The Chairman should ensure that the views of shareholders are communicated to the board as a whole.
- (iv) The board should:
  - (a) always ensure that all holders of each Class of capital are treated fairly and equally; and
  - (b) act in the context that its shareholders are constantly changing and, consequently, decisions should take into account the interests of future shareholders as well.
- (v) Shareholders must appreciate the significance of participation in the general meetings of the Company and particularly in the election of Directors. They should continue to hold Directors to account for their actions, their stewardship of the company's assets and the performance of the company.
- (vi) The agenda for general meetings of shareholders and the conduct of such meetings must not be arranged in a manner to frustrate valid discussion and decision-taking.
- (vii) Whilst recognising that most shareholder contact is with the Chief Executive Officer and finance Director, the Chairman should maintain sufficient contact with major shareholders to understand their issues and concerns.

- (viii) The board should consider whether, from time to time, disclosure should be made by the Company to other stakeholders other than its shareholders.

### **Code provisions**

- 9.1 The Chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the Annual General Meeting and for all directors to attend.
- 9.2 Minority shareholders should be able to call special meetings on matters of importance to the company. However a minimum threshold of share ownership, as established in the Memorandum or Articles of Association of the company, should be set up before a Group or an individual may call a special meeting.
- 9.3 Procedures should be established to resolve conflicts between minority shareholders and controlling shareholders. To resolve conflicts, there should be some mechanism, disclosed in the Company's Memorandum or Articles, to trigger arbitration.
- 9.4 Minority shareholders should be allowed to formally present an issue to the board of Directors.

## **10. INSTITUTIONAL SHAREHOLDERS**

The term 'institutional shareholders' should be interpreted widely and includes any person who by profession, whether directly or indirectly, takes a position in investments as principal, or Manager or holds funds for or on behalf of others and includes Custodians, banks, financial institutions, fund managers, stockbrokers, investment managers and others.

### **(A) Shareholder voting**

#### **Main principle**

Institutional shareholders have a responsibility to make considered use of their votes.

#### **Supporting principles**

- (i) Institutional shareholders have the knowledge and expertise to analyse market information and make their independent and objective conclusions of the information available. Their role in the market is to be perceived by individual investors as being a very significant one. Accordingly, institutional shareholders are expected to conduct themselves in an appropriate manner in the market and act as a more effective check on Listed Companies.
- (ii) Institutional shareholders should take an active role in the pursuit of the attainment of their voting objectives. They should work towards the adherence to principles of good governance without substituting themselves for the company's board and management.
- (iii) Institutional shareholders should make available to their clients, upon request, information on the proportion of resolutions on which votes were cast and non-discretionary proxies lodged.

- (iv) Institutional shareholders should use their best endeavours to attend Annual General Meetings. Companies and registrars should facilitate this.

## **(B) Evaluation of governance disclosures**

### **Main principle**

When evaluating the Company's governance arrangements, particularly those relating to board structure and composition, institutional shareholders should give due weight to all relevant factors drawn to their attention.

### **Supporting Principle**

Institutional shareholders should consider carefully the explanations given for departure from this Code and make reasoned judgements in each case. They should give an explanation to the Company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the Company's position. They should avoid a box-ticking approach to assessing a company's corporate governance. They should bear in mind in particular the size and complexity of the Company and the nature of the risks and challenges it faces.

## **11. CONFLICTS OF INTEREST**

### **Main principle**

Directors' primary responsibility is always to act in the interest of the Company and its shareholders as a whole irrespective of who appointed them to the board.

### **Supporting principles**

- (i) A Director should avoid conflicts of interest at all times and shall not accept a nomination if he is aware that he has an actual conflict of interest.
- (ii) The personal interests of a Director must never take precedence over those of the Company and its shareholders

### **Code provisions**

- 11.1 Should an actual or potential conflict arise during the tenure of a Directorship, a Director must disclose and record the conflict in full and in time to the board. A Director shall not participate in a discussion concerning matters in which he has a conflict of interest unless the board finds no objection to the presence of such Director. In any event, the Director shall refrain from voting on the matter. In certain circumstances it may be appropriate for the board to disclose in a public document that an actual conflict or potential conflict of interest has arisen.
- 11.2 A Director having a continuing material interest that conflicts with the interests of the Company, should take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict then the Director should consider resigning.

- 11.3 Each Director should declare to the Company his or her interest in the share capital of the Company distinguishing between beneficial and non-beneficial interest and should only deal in such shares as allowed by law.

## **12. CORPORATE SOCIAL RESPONSIBILITY**

### **Main principle**

Directors should seek to adhere to accepted principles of corporate social responsibility in their day-to-day management practices of their company.

### **Supporting principles**

- (i) Corporate Social Responsibility is the continuing commitment by business entities to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. Being socially responsible means not only fulfilling legal expectations but also going beyond compliance and investing “more” into human capital, the environment and the relations with stakeholders.
- (ii) It is encouraged that Listed Companies take up initiatives aimed at augmenting investment in human capital, health and safety issues, and managing change, while adopting environmentally responsible practices related mainly to the management of natural resources used in the production process.
- (iii) Listed Companies are expected to act as corporate citizens in the local community and work closely with suppliers, customers, employees and public authorities.
- (iv) Listed Companies are encouraged to go through material relating to the theme of corporate social responsibility and keep abreast with initiatives being taken in the local and international scenario.

APPENDIX 5.2  
ARTICLES OF ASSOCIATION

Section	Description
1.	Directors
2.	Accounts
3.	Capital
4.	Dividends
5.	Transfers
6.	Borrowing Powers
7.	Notice of Meetings
8.	Winding - Up
9.	Alteration of Articles
10.	Proxy

1 *Directors*

- 1.1 All Directors of an Applicant shall be individuals.
- 1.2 Subject to such exceptions specified in the Articles of Association as the Listing Committee may approve, a Director shall not vote on any contract or arrangement or any other proposal in which he has a material interest.
- 1.3 An election of Directors shall take place every year. All Directors, except a Managing Director, shall retire from office once at least in each three (3) years, but shall be eligible for re-election.
- 1.4 The office of a Director shall become vacant should he become of unsound mind, is convicted of any crime punishable by imprisonment, or declared bankrupt during his term of office.
- 1.5 The maximum annual aggregate Emoluments as well as any increase of such Emoluments of the Directors shall be established pursuant to a resolution passed at a general meeting of an Issuer where notice of the proposed aggregate Emoluments and any increase has been given in the notice convening the meeting.
- 1.6 Any person appointed by the Directors to fill a casual vacancy or as an addition to the board will hold office only until the next following annual general meeting of the Issuer, and will be eligible for re-election.
- 1.7 An Issuer must give at least fourteen (14) days notice to its shareholders to submit names for the election of Directors. Notice to the Issuer proposing a person for election as a Director, as well as the latter's acceptance to be nominated as Director shall be given to the Issuer not less than fourteen (14) days prior to the date of the meeting appointed for such election.



2. *Accounts*

A printed copy of the profit and loss account and balance sheet including any Directors' report attached thereto, will, at least fourteen (14) days prior to the general meeting of the Issuer, be delivered or sent by post to every member and/or stockholder or holder of Securities in the Issuer.

3. *Capital*

3.1 The Issuer shall not issue Shares such that such issue would dilute a substantial interest without prior approval of the shareholders in general meeting.

3.2 Unless the shareholders approve in a general meeting, or as otherwise permitted under the Capital Markets Rules, no Director shall participate in an issue of Shares to employees.

3.3 Preference shareholders shall have the same rights as ordinary shareholders as regards receiving notices, reports and balance sheets, and attending general meetings of the Issuer.

3.4 Preference shareholders shall also have the right to vote at any general meeting of the Issuer convened for the purpose:

3.4.1 of reducing the capital of the Issuer; or

3.4.2 winding up of the Issuer; or

3.4.3 where the proposition to be submitted directly affects their rights and privileges; or

3.4.4 when the dividend on their Shares is in arrears by more than six (6) months.

4. *Dividends*

Any amount paid up in advance of calls on any Share may carry interest but will not entitle the holder of the Share to participate in respect of such amount in any dividend.

5. *Transfers*

There shall be no restriction on the right to transfer Securities which are authorised as Admissible to Listing.

6. *Borrowing Powers*

The scope of the borrowing powers of the Board of Directors shall be expressed.

7. *Notice of Meetings*

7.1 A general meeting of an Issuer shall be deemed not to have been duly convened unless at least fourteen (14) days' notice has been given to all shareholders in

writing, wherein is stated the place, date and hour of the meeting and in case of special business, the general nature of that business.

- 7.2 Any notice of the meeting called to consider extraordinary business shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such extraordinary business.

8 *Winding-Up*

8.1 The basis on which shareholders would participate in a distribution of assets on a winding-up shall be expressed.

8.2 On the voluntary liquidation of an Issuer, no commission or fees shall be paid to a liquidator unless it shall have been approved by shareholders. The amount of such payment shall be notified to all shareholders at least seven (7) days prior to the meeting at which it is to be considered

9. *Alteration of Articles*

Issuers whose Securities are authorised as Admissible to Listing shall not delete, amend or add to any of their existing Articles of Association, which have previously been authorised by the MFSA, unless prior written authorisation has been sought and obtained from the MFSA for such deletion, amendment or addition.

10. *Proxy*

An Issuer is required to design proxy forms in a manner which will allow a Shareholder of an Issuer to indicate how he/she would like his proxy to vote in relation to each resolution.