

# GUIDE TO CONNECTED TRANSACTIONS UNDER THE HONG KONG LISTING RULES

By David Richardson

## What's Chapter 14A all about?

Connected transactions are transactions with connected persons, and transactions with third parties that may confer benefits on connected persons through their interests in the entities involved in the transactions. Connected transactions include both capital and revenue nature transactions. They may be one-off transactions or continuing transactions.

The general requirements for connected transactions include disclosures in announcements, circulars and annual reports, and shareholders' approval. Persons with material interests cannot vote on the resolution approving the transaction. Continuing connected transactions also require annual reviews by independent non-executive directors and the auditors.

Exemptions and waivers from all or some of the connected transaction requirements are available for specific categories of connected transactions. These apply to connected transactions that are immaterial to the issuer's group, or specific circumstances where the risk of abuse by connected persons is low.

## How does Chapter 14A work?

### The Transactions

Transactions include both capital and revenue nature transactions, whether or not conducted in the ordinary and usual course of business of the group. This includes the following types of transactions:

- » any buying or selling of assets by a group including a deemed disposal;
- » a group granting, accepting, exercising, transferring or terminating an option to acquire or dispose of assets or to subscribe for securities; or
- » a group deciding not to exercise an option to acquire or dispose of assets or to subscribe for securities;
- » entering into or terminating finance leases or operating leases;
- » providing or receiving financial assistance. "Financial assistance" includes granting credit, lending money, or providing an indemnity, guarantee or security for a loan;
- » entering into an agreement or arrangement to set up a joint venture in any form (e.g. a partnership or a company), or any other form of joint arrangement;
- » issuing new securities of the issuer or its subsidiaries;
- » providing, receiving or sharing services; or
- » acquiring or providing raw materials, intermediate products and/or finished goods.

## What are Continuing Connected Transactions?

Continuing connected transactions are connected transactions involving the provision of goods or services or financial assistance, which are carried out on a continuing or recurring basis and are expected to extend over a period of time. They are usually transactions in the ordinary and usual course of business of the listed issuer's group.

## Who are Connected Persons?

Connected persons of an issuer are persons who can control or exercise significant influence over the group or who stand to benefit from transactions with the group. They include senior executives and substantial shareholders of the issuer or its subsidiaries, and any persons closely associated with them.

The scope of connected persons also includes an issuer's non wholly-owned subsidiary if it is substantially held by senior executives and/or substantial shareholders of the issuer (and/or their associates).

Other persons may be deemed as connected persons by the Exchange in individual cases.

# Guide to Connected Transactions under the Hong Kong Listing Rules (cont'd)

## The consequences

A connected transaction must comply with the following requirements:

- » a written agreement for the transaction;
- » an announcement;
- » a circular;
- » shareholders' approval; and
- » annual reporting.

A continuing connected transaction must also comply with the annual review requirement.

## Ways out?

Exemptions from the connected transaction requirements are available for the following types of transactions:

- » de minimis transactions;
- » financial assistance;
- » issues of new securities by the issuer or its subsidiary;
- » dealings in securities on stock exchanges;
- » repurchases of securities by the issuer or its subsidiary;
- » directors' service contracts;
- » buying or selling of consumer goods or services;
- » sharing of administrative services;
- » transactions with associates of passive investors; and
- » transactions with connected persons at the subsidiary level.

The exemptions are broadly divided into two categories:

- » fully exempt from shareholders' approval, annual review and all disclosure requirements; and
- » exempt from shareholders' approval requirement.



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