

**HKEx GUIDANCE LETTER**  
**HKEx-GL70-14 (January 2014)**

<b>Subject</b>	<b>Guide on Connected Transaction Rules</b>
<b>Listing Rules</b>	<b>Main Board Rules Chapter 14A</b> <b>GEM Rules Chapter 20</b>
<b>Related Publication</b>	<b>HKEx News Release (20/04/2012)</b>
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**Important note:** *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules, or this letter.*

**Purpose**

This is a reproduction of the HKEx News Release dated 20 April 2012 regarding a Guide on Connected Transaction Rule.

**Disclaimer:**

This Guide is intended to illustrate the connected transaction requirements in plainer language with diagrams and examples. It does not form part of the Rules, nor does it have the status of guidance/practice notes to the Rules. It does not amend or vary any Rule requirements, or absolve issuers and/ or their directors of any obligations to make their own judgment. It has no relevance to the enforcement of the Rules. We will not take it into account in interpreting, applying or enforcing the Rules.

We have consulted on this Guide with issuers and market practitioners and have corrected areas where errors, omissions or ambiguities were identified. While care has been taken in the production of this Guide, there is no guarantee as to its accuracy and completeness. We regard it as a work-in-progress. If there is any conflict or inconsistency between this Guide and the Rules, the Rules prevail.

Users of this Guide should in all cases refer to the Rules and where necessary seek qualified professional advice. The Listing Division can be consulted on a confidential basis.

We will continue to improve this Guide and invite comments and suggestions from issuers and market practitioners who review this Guide in conjunction with their transactions on:

- whether there is any error, omission or ambiguity in the Guide;
- whether there are any areas where the Guide can be made more user-friendly;
- whether the Guide is useful in the transaction concerned;
- whether the Exchange should give guidance in a different manner or format.

## Guide on Connected Transaction Rules

### Introduction

14A.01,  
14A.02,  
14A.03  
(summarized)

Chapter 14A of the Main Board Rules (or Chapter 20 of the GEM Rules) applies to *connected transactions* entered into by an *issuer* or its *subsidiaries*.

The rules ensure that the interests of shareholders as a whole are taken into account by the *issuer* when a *group* enters into a *connected transaction*.

*Connected transactions* take place when a person is able to control or influence a *group* to enter into *transactions* with him/it or other persons closely associated with him/it. The rules safeguard against the person taking advantage of his/its position.

This Guide explains the *connected transaction* rules in plain language to assist *issuers* to comply with them. Terms in bold and italics are defined in the glossary.

### Who are connected persons? (Section I)

*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.

### What are connected transactions? (Section II)

*Connected transactions* include *transactions* between a *group* and *connected persons*.

**Connected transactions** also include **transactions** between a **group** and third parties that may confer benefits to **connected persons**. They relate to investments in, or financing arrangements with, companies in which the **group** and its **connected person(s)** are, or will as a result of the **transactions** become, shareholders.

**Connected transactions** include both capital and revenue nature **transactions**. They may be one-off **transactions** or continuing **transactions**.

### **Requirements for connected transactions (Sections III and IV)**

The general requirements for **connected transactions** include disclosures in announcements 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 (Sections V and VI)**

To reduce **issuers'** compliance burden, 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 **group**, or specific circumstances where the risk of abuse by **connected persons** is low.

### **Section I – Who are connected persons?**

1. This section sets out the definition of a **connected person** for the **connected transaction** requirements in Chapter 14A which is more extensive than that applicable to other parts of the Rules.
2. **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.
3. 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**).
4. Other persons may be deemed as **connected persons** by the Exchange in individual cases

### **Definition of connected person**

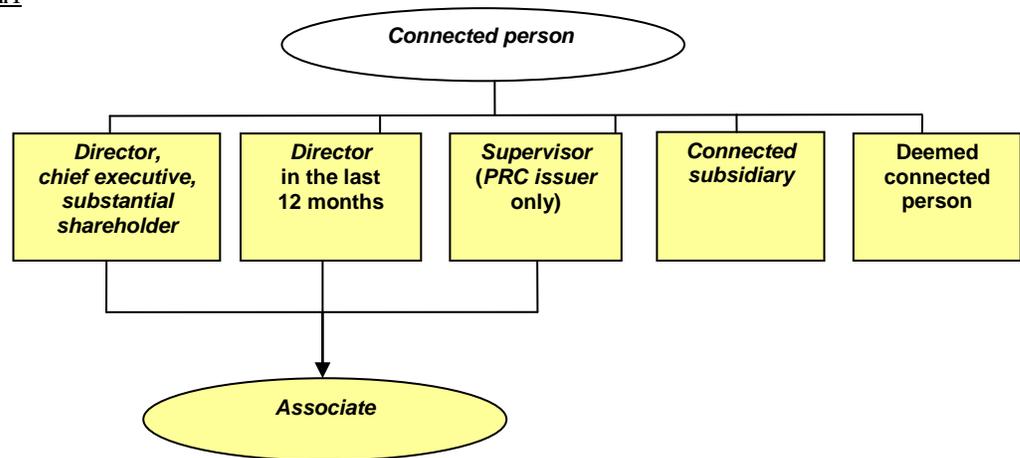
5. A "**connected person**" is:

- (1) a **director**, **chief executive** or **substantial shareholder** of the **issuer** or any of its **subsidiaries**;

1.01, 14A.11(1)

- 14A.11(2) (2) a person who was a **director** of the **issuer** or any of its **subsidiaries** in the last 12 months;
- 1.01, 14A.11(3) (3) a **supervisor** of a **PRC issuer** or any of its **subsidiaries**;
- 1.01, 14A.11(4) (4) an **associate** (see paragraphs 7 to 10) of any the above persons;
- (5) a **connected subsidiary** (see paragraph 11); or
- (6) a person deemed to be connected by the Exchange (see paragraphs 14 to 17).

Diagram 1

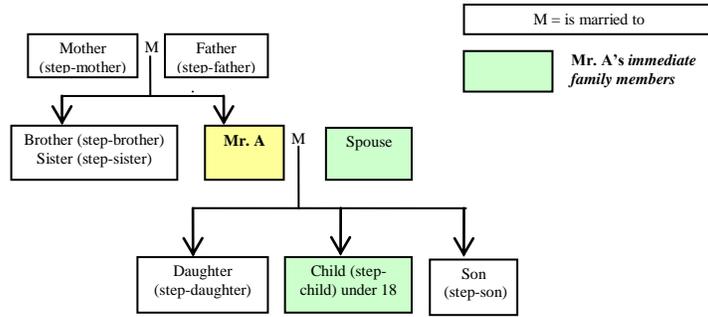


- 21.13 6. Where an **issuer** is an investment company listed under Chapter 21, its **connected persons** also include an investment manager, investment adviser or custodian (or any **connected person** of each of them).

Definition of associate

7. An “**associate**” of a **connected person** described in paragraph 5(1), (2) or (3) who is an individual includes:
- 1.01 - (a)(i), (ii), 19A.04 - (a)(i), (ii) (1) (a) his spouse, his (or his spouse’s) child (natural or adopted) or step-child under the age of 18 years (each an “**immediate family member**”);

**Diagram 2**



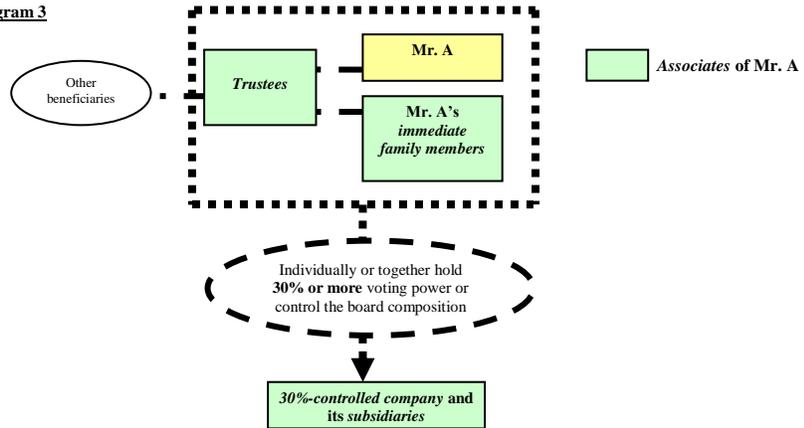
1.01 - (a)(iii),  
19A.04 - (a)(iii)

(b) the trustees, acting in their capacity as trustee of any trust of which the individual or his *immediate family member* is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object (the “*trustees*”); or

1.01 - (a)(v),  
19A.04 - (a)(v)

(c) a *30%-controlled company* held by the individual, his *immediate family members* and/or the *trustees* (individually or together), or any of its *subsidiaries*.

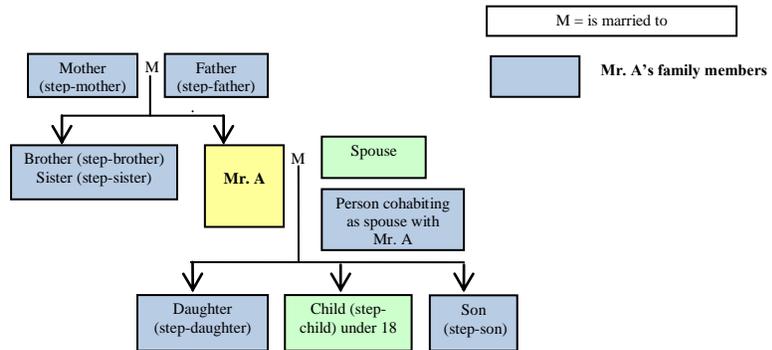
**Diagram 3**



14A.11(4)(b)(i)

(2) (a) a person cohabiting with him as a spouse, or his child, step-child, parent, step-parent, brother, step-brother, sister or step-sister (each a “*family member*”);

**Diagram 4**

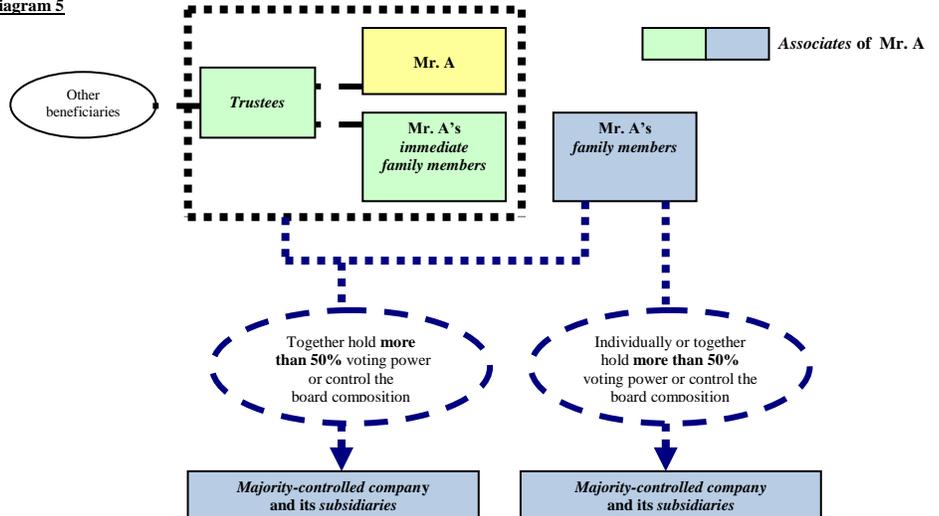


14A.11(4)(b)(ii),  
14A.11(4) – N3

LD76-5,  
FAQ Series 10  
No. 12

- (b) a *majority-controlled company* held by the *family members* (individually or together), or held by the *family members* together with the individual, his *immediate family members* and/or the *trustees*, or any of its *subsidiaries*.

**Diagram 5**



8. An “*associate*” of a *connected person* described in paragraph 5(1), (2) or (3) which is a company includes:

1.01 - (b)(i),  
19A.04 - (b)(i)

(1) its *subsidiary* or holding company, or a fellow *subsidiary* of the holding company (together the “*group companies*”);

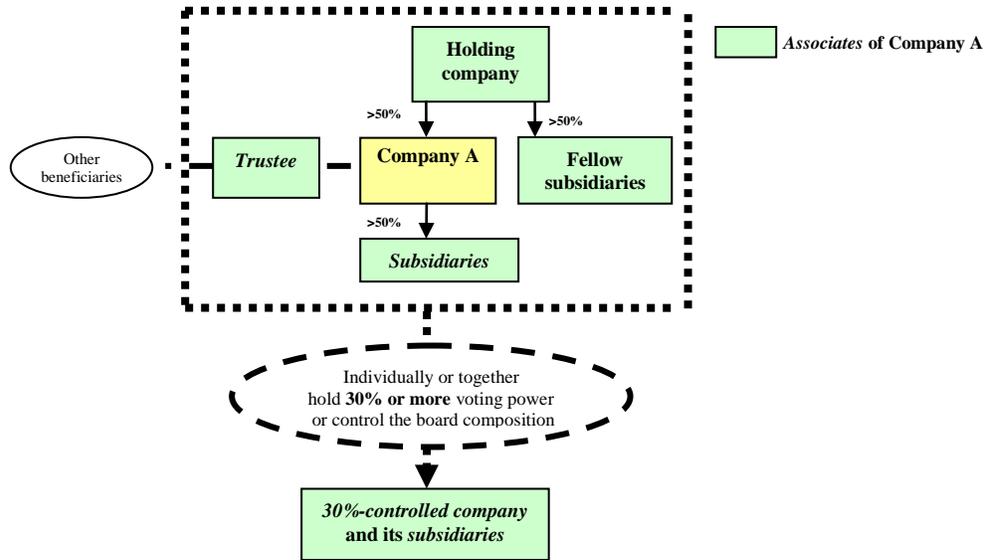
1.01 - (b)(ii),  
19A.04 - (b)(ii)

(2) the trustees, acting in their capacity as trustees of any trust of which the company is a beneficiary or, in the case of a discretionary trust, is (to its knowledge) a discretionary object (the “*trustees*”); or

1.01 - (b)(iv),  
19A.04 - (b)(iv)

(3) a *30%-controlled company* held by the company, the *group companies*, and/or the *trustees* (individually or together), or any of its *subsidiaries*.

Diagram 6

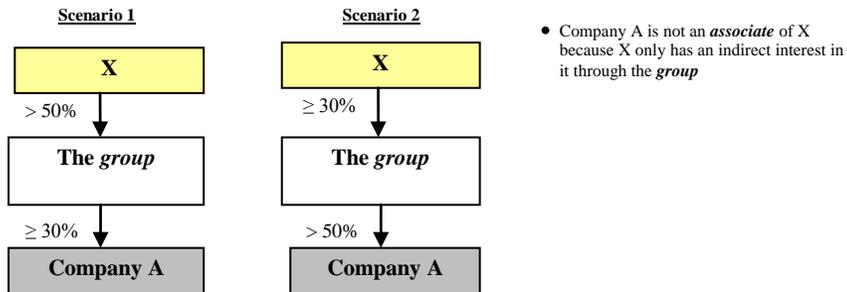


14A.11(4) – N1

LD100-1

9. A company will not be regarded as a person’s *associate* only because the person holds an interest in the company through his/its shareholding in the *group*.

Diagram 7



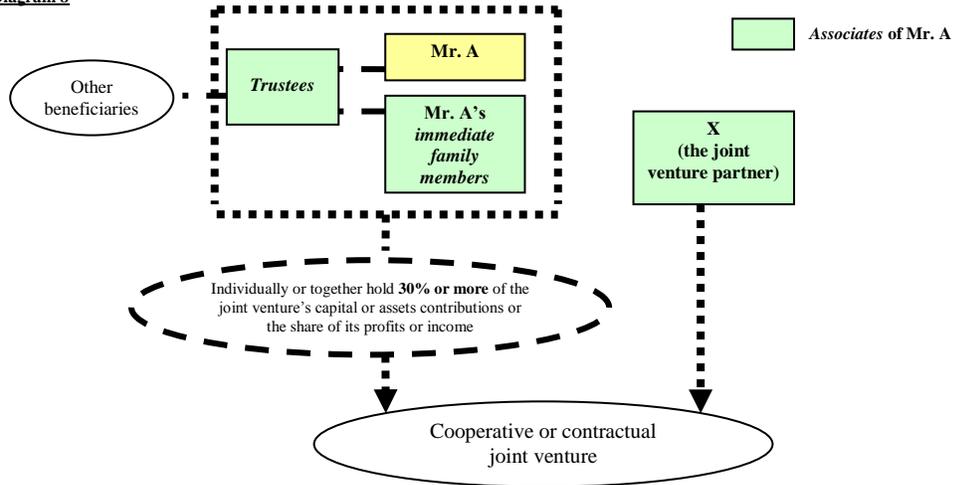
19A.04 - (b)(v)

10. For *PRC issuers* only, a person’s *associates* include any joint venture partner of a cooperative or contractual joint venture (whether or not it is a separate legal entity) where:

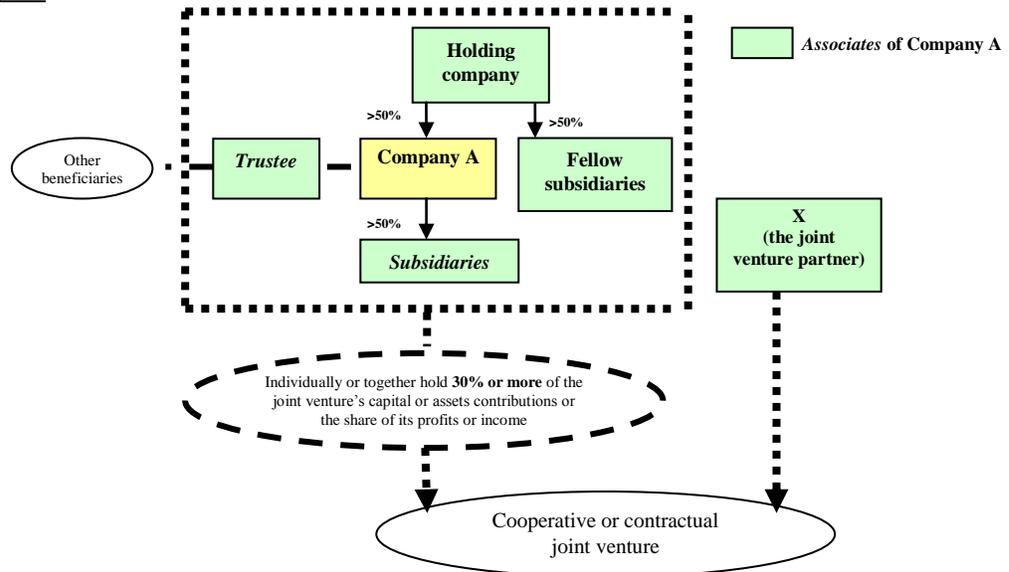
- (1) the person (being an individual, e.g. Mr. A), his *immediate family members* and/or the *trustees*; or
- (2) the person (being a company, e.g. Company A), its *group companies* and/or the *trustees*,

together directly or indirectly hold 30% (or an amount that would trigger a mandatory general offer or establish legal or management control over a business enterprise under the *PRC* law) or more in the joint venture's capital or assets contributions, or the contractual share of its profits or other income.

**Diagram 8**



**Diagram 9**



## Definition of connected subsidiary

11. A “*connected subsidiary*” is:

14A.11(5)

(1) a non wholly-owned *subsidiary* of the *issuer* where any *connected person(s) at the issuer level*, individually or together, can exercise or control the exercise of 10% or more of the voting power at the *subsidiary’s* general meeting. This 10% excludes any indirect interest in the *subsidiary* which is held by the *connected person(s)* through the *issuer*; or

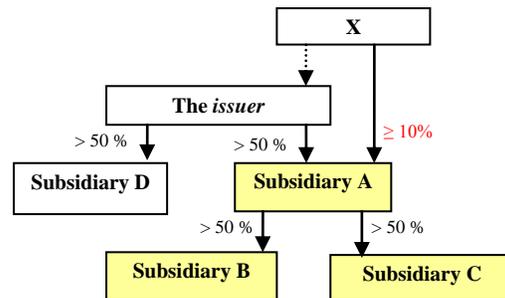
14A.11(6)

(2) any of its *subsidiaries*.

14A.31(1A)

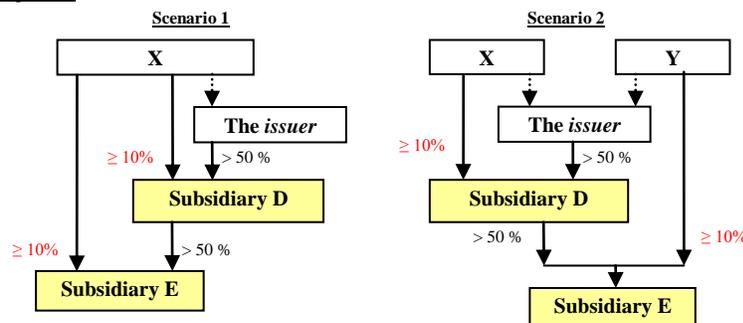
12. If an *issuer’s* *subsidiaries* are *connected persons* only because they are the *subsidiaries* of a *connected subsidiary*, *transactions* between these *subsidiaries* will not be treated as *connected transactions*.

Diagram 10



- X is a *connected person at the issuer level*, and he/it has a 10% (or more) shareholding in Subsidiary A.  
→ Subsidiary A is a *connected subsidiary*. (See paragraph 11(1))
- Subsidiaries B and C are *subsidiaries* of Subsidiary A.  
→ Subsidiaries B and C are also *connected subsidiaries*. (See paragraph 11(2))
- *Transactions* between the *issuer*/Subsidiary D with Subsidiary A/B/C are *connected transactions*.
- *Transactions* between any of Subsidiaries A, B and C are not *connected transactions* if Subsidiaries B and C are connected solely because of their relationship with Subsidiary A. (See paragraph 12)

Diagram 11



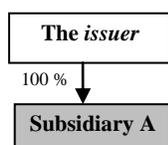
- X and Y are *connected persons at the issuer level*.  
→ Subsidiaries D and E are *connected subsidiaries*.
- Subsidiary E is a *subsidiary* of Subsidiary D. However, the exemption in paragraph 12 does not apply to *transactions* between them because Subsidiary E is a *connected subsidiary* not only because of its relationship with Subsidiary D but also its relationship with X or Y.

13. A *subsidiary* of the *issuer* is not a *connected person* if:

14A.12

(1) it is wholly-owned by the *issuer*; or

Diagram 12

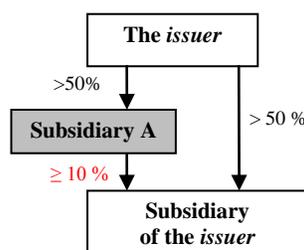


14A.12A

(2) it falls under the definition of *connected person* only because it is:

(a) a *substantial shareholder* of another *subsidiary* of the *issuer*; or

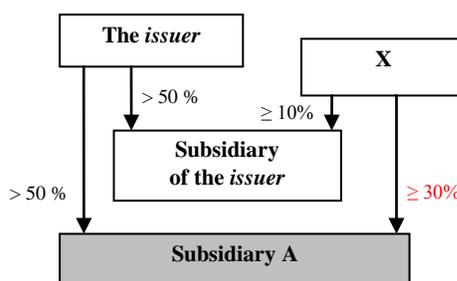
Diagram 13



- Subsidiary A is a *substantial shareholder* of another *subsidiary* of the *issuer*. However, this relationship will not make Subsidiary A a *connected person* of the *issuer*.

(b) an *associate* of a *director* (or a person who was in past 12 months a *director*), a *chief executive*, a *substantial shareholder* or a *supervisor* of any *subsidiary* of the *issuer*.

Diagram 14



- X is a *substantial shareholder* of a *subsidiary* of the *issuer*.
- X holds 30% (or more) of shareholding in Subsidiary A.
- Subsidiary A is an *associate* of X. However, this relationship will not make Subsidiary A a *connected person* of the *issuer* because X is only a *connected person at the subsidiary level*.

### Deemed connected persons

14A.06

14. The Exchange has the power to deem a person as an *issuer's connected person*.

14A.11(4)(a)

15. A deemed *connected person* of an *issuer* includes a person:

(1) who has entered, or proposes to enter, into:

(a) a *transaction* with the *group*; and

(b) an agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied)

with a **connected person** described in paragraph 5(1), (2) or (3) with respect to the **transaction**; and

- (2) who, in the Exchange’s opinion, should be considered as a **connected person**.

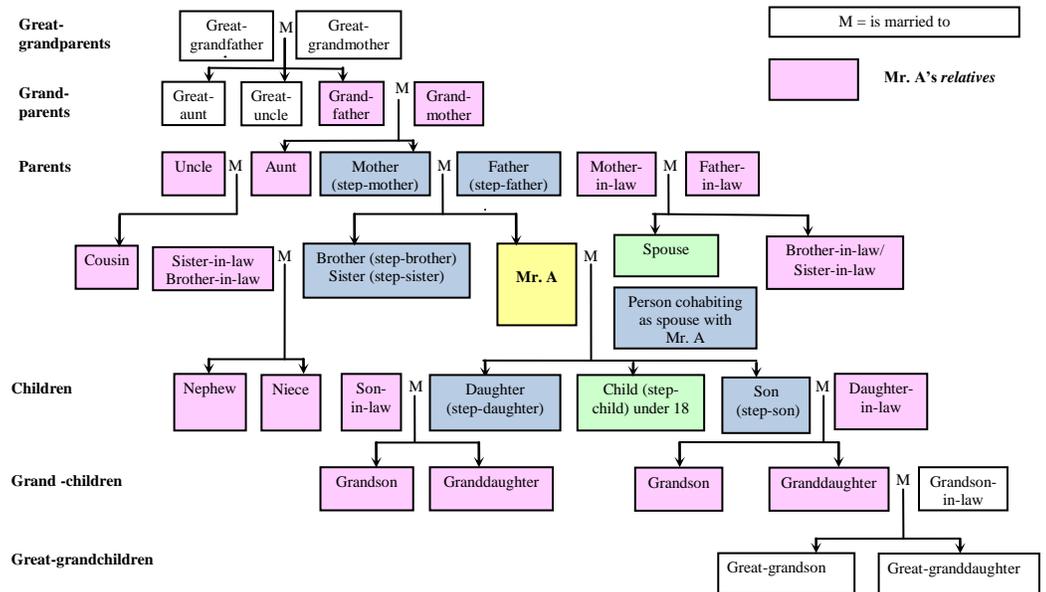
16. A deemed **connected person** also includes a person:

- (1) who is:

14A.11(4)(c)(i)

- (a) a father in-law, mother-in-law, son-in-law, daughter-in-law, grandparent, grandchild, uncle, aunt, cousin, nephew or niece (each a “**relative**”) of a **connected person** as described in paragraph 5(1), (2) or (3); or

**Diagram 15**



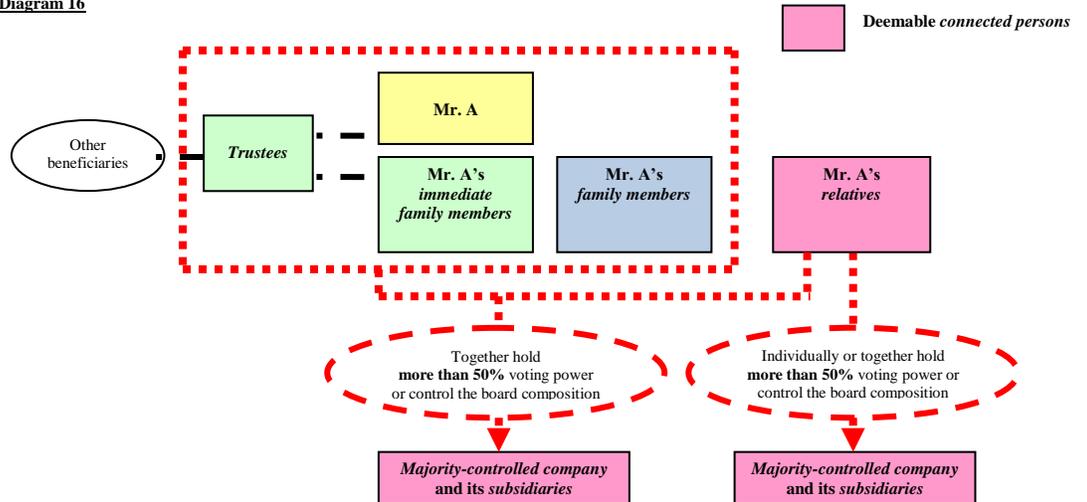
14A.11(4)(c)(ii),

14A.11(4) – N3

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- (b) a **majority-controlled company** held by the **relatives** (individually or together) or held by the **relatives** together with the **connected person** as described in paragraph 5(1), (2) or (3), the **trustees**, his **immediate family members** and/or **family members**, or any of its **subsidiaries**; and

Diagram 16



- (2) whose association with the *connected person* is such that, in the Exchange’s opinion, the proposed *transaction* should be subject to the *connected transaction* requirements.

14A.11(4)(c)

17. The *issuer* must inform the Exchange of any proposed *transaction* with the person unless it is exempt from all of the *connected transaction* requirements. It must provide information to the Exchange to demonstrate whether that the *transaction* should be subject to *connected transaction* requirements.

### Exceptions

#### PRC Governmental Body

14A.12A(2),  
19A.19

18. The Exchange will not normally treat a *PRC Governmental Body* as a *connected person*. The Exchange may request an *issuer* to explain its relationship with a *PRC Governmental Body* and why it should not be treated as a *connected person*. If the Exchange decides to treat the *PRC Governmental Body* as a *connected person*, the *issuer* must comply with any additional requirements requested by the Exchange.

#### Depositary

1.01 - (c),  
19B.03

19. For a listing of *depositary receipts*, a person holding shares of an *issuer* as a *depositary* will not be treated as:
- (1) an *associate* of the holder of the *depositary receipts*; or
  - (2) a *substantial shareholder* or *controlling shareholder* of the *issuer*.

## Others

20. In specific circumstances, exemptions or waivers are available for **transactions** with the following types of **connected persons**:
- (1) persons connected only because of their connection with **insignificant subsidiaries** (see paragraphs 105 to 108);
  - (2) **passive investors** of the **group** (see paragraphs 109 and 110); or
  - (3) non-executive **directors** of the **group** whose principal business interest is not the **group** (see paragraph 115).
21. **Transactions** with third parties who are not **connected persons** may be **connected transactions** if the **group**:
- (1) provides or receives **financial assistance** to or from a **commonly held entity** (see paragraphs 25 and 26); and
  - (2) buys or sells an interest in a company whose substantial shareholder is, or will be, a **controller** of the **group** (see paragraphs 27 to 32).

## Section II – What are connected transactions?

22. *Connected transactions* include *transactions* with *connected persons*, and *transactions* with third parties that may confer benefits to *connected persons* through their interests in the entities involved in the *transactions*.

### What are transactions?

14A.10(13)

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

- (1) any buying or selling of assets by a *group* including a *deemed disposal*;
- (2) (a) a *group* granting, accepting, exercising, transferring or terminating an *option* to buy or sell assets or to subscribe for securities; or

14A.10(13)(b),  
14A.68

*Note: Terminating an option is not a transaction if it is made under the terms of the original agreement and does not involve payment of any penalty, damages or other compensation by the group.*

- (b) a *group* deciding not to exercise an *option* to buy or sell assets or to subscribe for securities;
- (3) entering into or terminating finance leases or operating leases;
- (4) providing or receiving *financial assistance*. “*Financial assistance*” includes granting credit, lending money, or providing indemnity, guarantee or security for a loan;
- (5) 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;
- (6) issuing new securities of the *issuer* or its *subsidiaries*;
- (7) providing, receiving or sharing services; or
- (8) buying or selling raw materials, intermediate products and/or finished goods

### Transactions with connected persons

14A.13(1)(a),  
14A.13(2)(a)(i),  
14A.13(2)(b)(i)

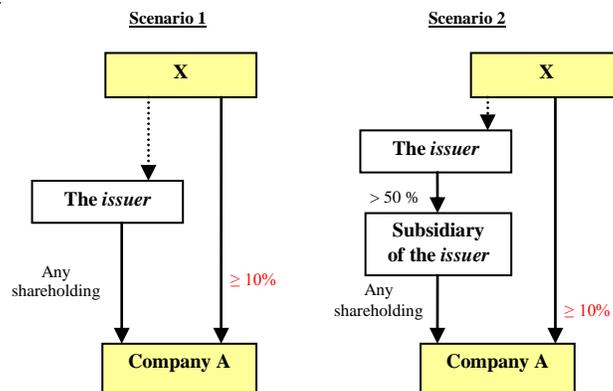
24. Any *transaction* between a *group* and a *connected person* is a *connected transaction*.

## Financial assistance to/from commonly held entities

14A.13(2)(a)(ii),  
14A.13(2)(b)(ii),  
14A.13(3), (4)

25. **Financial assistance** provided by a **group** to, or received by a **group** from, a **commonly held entity** is a **connected transaction**.
26. A “**commonly held entity**” is a company whose shareholders include:
- (1) a **group**; and
  - (2) any **connected person(s) at the issuer level** who, individually or together, can exercise or control the exercise of 10% or more of the voting power at the company’s general meeting. This 10% excludes any indirect interest held by the person(s) through the **issuer**.

Diagram 17



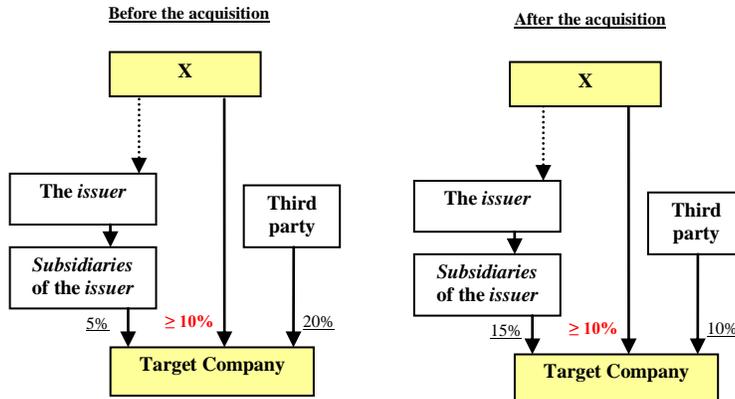
- X is a **connected person at the issuer level**
- Both the **group** and X are shareholders of Company A, and X holds 10% (or more) of shareholding in Company A.
- Company A is a **commonly held entity**.
- **Financial assistance** provided by the **group** to, or received by the **group** from, Company A is a **connected transaction**.

## Transactions with third parties

14A.13(1)(b)(i)

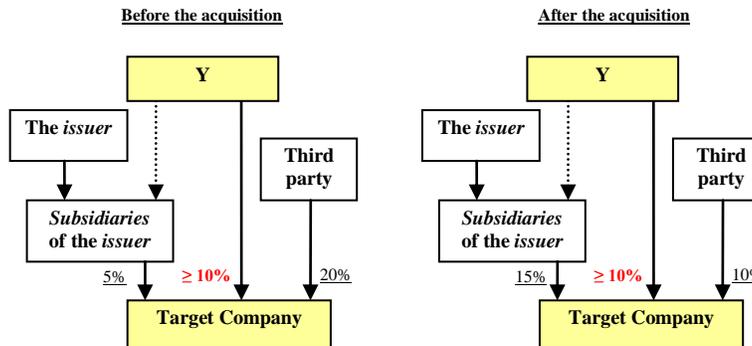
27. A **group** buying or selling an interest in a company (the “**target company**”) from or to a person who is not a **connected person** is a **connected transaction** if the **target company’s substantial shareholder**:
- (1) is, or is proposed to be, a **controller**. A “**controller**” is a **director, chief executive** or **controlling shareholder** of the **issuer** or any of its **subsidiaries**; or
  - (2) is, or will, as a result of the **transaction**, become, an **associate** of the **controller** or proposed **controller**.

Diagram 18



- X is a (proposed) *controller* of the *issuer*.
- X is a *substantial shareholder* of the Target Company.
- The *group's* acquisition of an interest in the Target Company from the Third Party is a *connected transaction*.
- The *group's* disposal of an interest in the Target Company to the Third Party or any other third party is also a *connected transaction*.

Diagram 19



- Y is a (proposed) *controller* of the *issuer's subsidiary* or *subsidiaries*.
- Y is a *substantial shareholder* of the Target Company.
- The *group's* acquisition of an interest in the Target Company from the Third Party is a *connected transaction*.
- The *group's* disposal of an interest in the Target Company to the Third Party or any other third party is also a *connected transaction*.

14A.13(1)(b)(i)

28. The Exchange may aggregate the interests of the *controller* and his/its *associates* in the *target company* to decide whether they together are the *target company's substantial shareholder*.

14A.13(1)(b)(i)

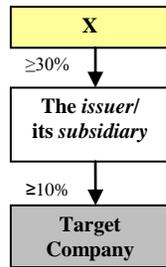
29. Buying or selling the *target company's* assets is also a *connected transaction* if these assets account for 90% or more of the *target company's* net assets or total assets.

30. Paragraph 27 or 29 does not apply to an *issuer's* proposed acquisition or disposal if:

14A.13(1)(b)(i)  
– N1, N2

(1) the *controller* or his/its *associate(s)* is/are together the *target company's substantial shareholders* only because of their indirect shareholdings in the *target company* held through the *group*; or

Diagram 20

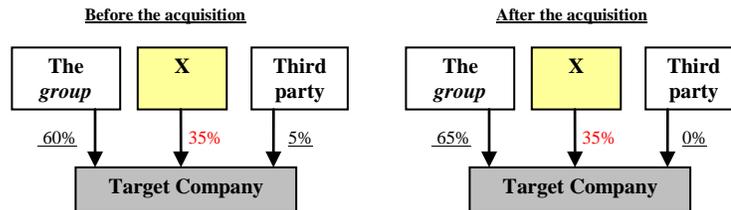


- X is a **controller** of the *issuer* or its *subsidiary* or *subsidiaries*.
  - X only has an indirect interest in the Target Company through the *group*.
- The *group*'s acquisition or disposal of an interest in the Target Company from or to any third party (who is not a **connected person**) is a not a **connected transaction**.

14A.13(1)(b)(i)  
– N3, N4

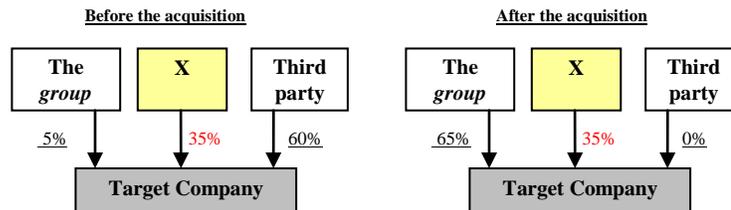
- (2) (a) the **target company** is, or will be, a **subsidiary** of the **issuer**;
- (b) the **target company**'s **substantial shareholder** is a **controller** or proposed **controller** only because of his/its relationship with the **target company**; and
- (c) the **substantial shareholder**'s interest in the **target company** does not increase (in the case of an acquisition) or change (in the case of a disposal) as a result of the proposed **transaction** or any related arrangement.

Diagram 21



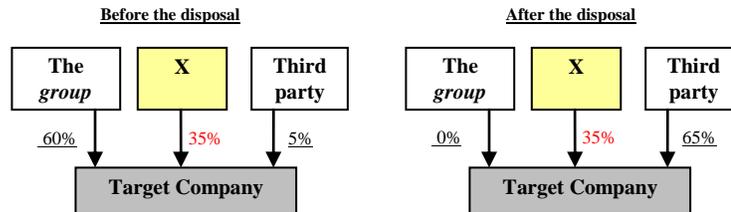
- The Target Company is a **subsidiary** of the *issuer*.
  - X is a **substantial shareholder** of the Target Company.
  - X is a **controller** of the *group* only because he is a **controlling shareholder** and/or **director** of the Target Company.
  - There is no change in X's interest in the Target Company as a result of the **transaction**.
- The *group*'s acquisition of an interest in the Target Company from the Third party (who is not a **connected person**) is not a **connected transaction**.

Diagram 22



- The Target Company will become a *subsidiary* of the *issuer* after the acquisition.
  - X is a *substantial shareholder* of the Target Company.
  - X will be a *controller* of the *group* only because he is, and will remain, a *controlling shareholder* and/or *director* of the Target Company.
  - There is no change in X's interest in the Target Company as a result of the *transaction*.
- The *group*'s acquisition of an interest in the Target Company from the Third party (who is not a *connected person*) is not a *connected transaction*.

Diagram 23



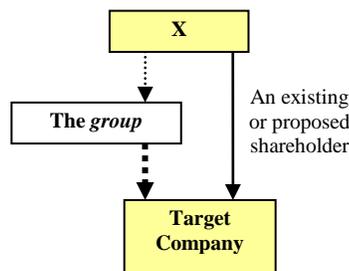
- The Target Company is a *subsidiary* of the *issuer*.
  - X is a *substantial shareholder* of the Target Company.
  - X is a *controller* of the *group* only because he is a *controlling shareholder* and/or *director* of the Target Company.
  - There is no change in X's interest in the Target Company as a result of the *transaction*.
- The *group*'s disposal of an interest in the Target Company to the Third party (who is not a *connected person*) is not a *connected transaction*.

31. A *transaction* between a *group* and a person who is not a *connected person* is a *connected transaction* if it involves:

14A.13(1)(b)(ii)

- (1) the *group* acquiring an interest in a company (or an option to acquire such interest) of which the *controller* (or his/its *associate*) is, or will become, a shareholder, and the interest is:
  - (a) of a fixed income nature;
  - (b) shares to be acquired on less favourable terms than those granted to the *controller* or the *associate*;
  - (c) shares which are of a different class from those held or to be granted to the *controller* or the *associate*; or

Diagram 24



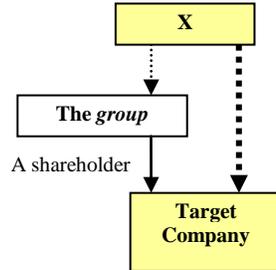
- X is a *controller* of the *issuer* or its *subsidiary* or *subsidiaries*.
  - X is, or will become, a shareholder of the Target Company.
  - The *group* proposes to acquire an interest in the Target Company which is (i) of a fixed income nature, (ii) on terms less favourable than those available to X; or (iii) shares of a different class from those held or to be acquired by X.
- The *group*'s acquisition of the interest in the Target Company is a *connected transaction*.

14A.13(1)(b)(iii),  
(iv)

- (2) the *controller* (or his/its *associate*) subscribing for shares in a company of which the *group* is a shareholder, and

- (a) the shares being subscribed are of a different class from those held by the **group**; or
- (b) the shares are to be subscribed on specially favourable terms to the **controller** (or his/its **associate**).

Diagram 25



- X is a **controller** of the **issuer** or its **subsidiary** or **subsidiaries**
  - The **group** is a shareholder of the Target Company.
  - The **group** enters into a **transaction** with a third party which involves X subscribing for shares in the Target Company which are (i) of a different class from those held by the **group**; or (ii) to be subscribed on specially favourable terms to X
- The **group**'s **transaction** with the third party is a **connected transaction**.

14A.13(1)(b)(ii),  
(iii), (iv) – N

32. Paragraph 31 does not apply if the **group** and the **controller** (or his/its **associate**) acquire or subscribe for shares in a company where the terms of the acquisition or subscription have been approved by shareholders under Chapter 14A.

### Definition of continuing connected transaction

14A.14

33. **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 **group**'s **ordinary and usual course of business**.

### Section III – Requirements for connected transactions

- 14A.16,  
14A.17
34. A **connected transaction** must comply with the following requirements: (1) a written agreement for the **transaction**; (2) an announcement; (3) a circular; (4) shareholders' approval and (5) annual reporting. A **continuing connected transaction** must also comply with the annual review requirement.
35. Exemptions or waivers from all or some of the requirements are available for certain type of **connected transactions**. See Sections V (exemptions) and VI (waivers).

#### Written agreement

- 14A.04,  
14A.35(1)
36. The **group** must enter into a written agreement for a **connected transaction**.

#### Announcement

- 14A.47(2),  
14A.56
37. The **issuer** must announce the **connected transaction** as soon as practicable after its terms have been agreed. See Section IV for the content requirements.

*Note: If the **connected transaction** is subsequently terminated or there is any material variation of its terms or material delay in the completion, the **issuer** must announce this fact as soon as practicable.*

#### Shareholders' approval

- 14A.18,  
14A.35(4),  
14A.52,  
14A.54
38. The **connected transaction** must be conditional on shareholders' approval at a general meeting held by the **issuer**. Any shareholder who has a **material interest** in the **transaction** must abstain from voting on the resolution.
- 14A.43,  
14A.53
39. The Exchange may waive the general meeting requirement and accept a written approval passed by shareholders, subject to the conditions that:
- (1) no shareholders of the **issuer** is required to abstain from voting if a general meeting is held to approve the **transaction**; and
  - (2) the approval is given by a shareholder or a **closely allied group of shareholders** who (together) hold more than 50% of the voting rights in the general meeting.
- 14A.43 - N2
40. If the **issuer** discloses price sensitive information to any shareholder in confidence to solicit the written approval, it must ensure that the shareholder is aware that he must not deal in the securities before the information has been made available to the public.
- 14A.21
41. If the **connected transaction** requires shareholders' approval, the **issuer** must (1) set up an independent board committee; and (2) appoint an independent financial adviser.

### Independent Board Committee

14A.21,  
13.39(6), (7)

42. The independent board committee must, taking into account the recommendation of an independent financial adviser, advise the *issuer*'s shareholders:

- (1) whether the terms of the *connected transaction* are fair and reasonable;
- (2) whether it is in the interests of the *issuer* and its shareholders as a whole; and
- (3) how to vote on the *connected transaction*.

13.39(6)(c)

43. The independent board committee should consist only of independent non-executive *directors* who do not have a *material interest* in the *transaction*.

FAQ Series 7 No.42
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13.39(6)(c),  
14A.58 – N

44. If all the independent non-executive *directors* have a *material interest* in the *transaction*, an independent board committee will not be formed. The independent financial adviser must then make its recommendation to the shareholders directly.

14A.58(3)(c),  
13.39(7)(a)

45. If an independent board committee is formed, the circular should include a letter from the independent board committee containing its opinion and recommendation.

### Independent Financial Adviser

13.39(6)(b),  
14A.21,  
14A.23

46. The *issuer* must appoint an independent financial adviser acceptable to the Exchange to make recommendations to the independent board committee and shareholders on the matters in paragraphs 42(1) to (3). The independent financial adviser will give its opinion based on the written agreement for the *transaction*.

14A.22,  
14A.58(3)(d),  
13.39(6)(b), (7)(b)

47. The circular should include a letter from the independent financial adviser containing its opinion and recommendation. The independent financial adviser's letter must also set out the reasons for its opinion, the key assumptions made, the factors that it has taken into consideration in forming the opinion, and a statement whether:

- (1) the terms of the *connected transaction* are fair and reasonable;
- (2) the *connected transaction* is on *normal commercial terms* and in the *group's ordinary and usual course of business*;
- (3) it is in the interests of the *issuer* and its shareholders as a whole; and

- (4) the independent shareholders should vote in favour of the *connected transaction*.

### Circular

- 14A.49 48. The *issuer* must send a circular to its shareholders:
- (1) at the same time as or before the *issuer* gives notice of the general meeting if the *connected transaction* is to be approved by shareholders in a general meeting; or
- (2) within 15 business days after publication of the announcement in any other cases. The *issuer* may apply for a waiver from this requirement if it requires additional time to prepare the circular.
- 14A.56(10) 49. The *issuer* must announce the expected date of distribution of the circular, and if this is more than 15 business days after the publication of the announcement, the reasons why this is so.
- 14A.47A 50. If the *issuer* expects a delay in distribution of the circular by the date previously announced, it must announce this fact, the reason for the delay and the new expected date of distribution of the circular immediately.
- 14A.49,  
14A.58,  
14A.59 51. See Section IV for the content requirements.

### Supplementary circular or announcement

- 14A.49 52. If the *issuer* is aware of any material information relating to the *connected transaction* after it has issued the circular, it must publish this information in a supplementary circular or announcement at least 10 business days before the date of the general meeting to consider the *transaction*. The meeting must be adjourned by the chairman or, if that is not permitted by the *issuer*'s constitutional documents, by resolution to that effect if it is necessary for the compliance with the 10 business day requirement. (See Rule 13.73 for the factors that the *issuer* should consider when deciding whether to issue a supplementary circular or announcement.)

### Annual reporting

- 14A.35(3),  
14A.45,  
14A.46 53. The *issuer* must disclose its *connected transactions* conducted during the financial year in its annual report. See Section V for the content requirements.

### Requirements for continuing connected transactions

54. The following additional requirements apply to a *continuing connected transaction*.

### Terms of the agreement

14A.35(1)

55. The written agreement for the **continuing connected transaction** must contain the basis for calculating the payments to be made. Examples include sharing of costs incurred by the parties, unit prices for goods or services provided, annual rental for leasing a property, or management fees based on a percentage of the total construction cost.

14A.35(1)

LD88-1,  
FAQ Series 7  
No.49 and 50

56. The period for the agreement must be fixed and reflect **normal commercial terms**. It must not exceed 3 years except in special circumstances where the nature of the **transaction** requires a longer period. In this case, the **issuer** must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

### Annual cap

57. The **issuer** must set an annual cap (the “**cap**”) for the **continuing connected transaction**. The **cap** must be:

14A.35(2)

LD88-1

(1) expressed in monetary terms;

14A.35(2)

(2) determined by reference to previous **transactions** and figures in the **group**'s published information. If there were no previous **transactions**, the **cap** must be set based on reasonable assumptions; and

14A.52

(3) approved by shareholders if the **transaction** requires shareholders' approval.

### Changes to annual cap or terms of agreement

14A.36

FAQ Series 7  
No. 52

58. The **issuer** must re-comply with the announcement and shareholders' approval requirements before:

(1) the **cap** is exceeded; or

(2) it proposes to renew the agreement or to effect a material change to its terms.

*Note: The revised or new **cap(s)** will be used to calculate the **percentage ratios** for classifying the **continuing connected transaction**.*

### Annual review by independent non-executive directors and auditors

14A.37

59. The **issuer**'s independent non-executive directors must review the **continuing connected transactions** every year and confirm in the annual report that the **transactions** have been entered into:

- (1) in the *group*'s **ordinary and usual course of business**;
- (2) on **normal commercial terms** or if there are not sufficient comparable **transactions** to judge whether they are on **normal commercial terms**, on terms no less favourable to the *group* than terms available to or from (as appropriate) independent third parties; and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the *issuer*'s shareholders as a whole.

14A.38 60. The auditors must provide a letter to the *issuer*'s board of **directors** confirming that the **continuing connected transactions**:

- (1) have been approved by the *issuer*'s board of **directors**;
- (2) are in compliance with the *group*'s pricing policies if the **transactions** involve provision of goods or services by the *group*;
- (3) are in accordance with the agreement governing the **transactions**; and
- (4) have not exceeded the **cap**.

*Note: A confirmation provided by the auditors according to Practice Note 740 issued by the Hong Kong Institute of Certified Public Accountants is acceptable under this rule.*

14A.38 61. The *issuer* must provide a copy of the auditors' letter to the Exchange at least 10 business days before the bulk printing of its annual report.

14A.39 62. The *issuer* must allow, and ensure that the counterparties to the **continuing connected transactions** allow, the auditors sufficient access to their records for the purpose of reporting on the **transactions**.

14A.40 63. The *issuer* must promptly notify the Exchange and publish an announcement if the independent non-executive **directors** and/or the auditors cannot confirm the matters as required. The Exchange may require the *issuer* to re-comply with the announcement and shareholders' approval requirements and may impose additional conditions.

When a continuing transaction subsequently becomes connected

64. If the *group* has entered into an agreement with fixed terms for:

14A.41 (1) a continuing **transaction**, and the **transaction** subsequently becomes a **continuing connected transaction**, or

14A.33 – N2 (2) a **continuing connected transaction** exempt under the "**insignificant subsidiary** exemption" (see paragraphs 105 to 108) or the "**passive**

**investor** exemption” (see paragraphs 109 and 110), and the **transaction** subsequently cannot meet the conditions for the exemption,

the **issuer** must:

- (a) as soon as practicable after becoming aware of this fact, comply with the annual review and disclosure requirements including publishing an announcement and annual reporting if the **group** continues to conduct the **transaction** under the agreement; and
- (b) when the agreement is renewed or its terms are varied, comply with all **connected transaction** requirements.

### Other requirements relating to connected transactions

#### Options

65. If the **group** grants an **option** to a **connected person** and the **group** does not have discretion to exercise the **option**, the **transaction** is classified as if the **option** has been exercised (see paragraph 83(1)). In addition, the **issuer** must announce the following subsequent events as soon as practicable:

14A.69(2), (3)(c)

(1) any exercise or transfer of the **option** by the **option** holder; and/or

14A.69(3)(a), (b)

(2) (if the **option** is not exercised in full), the **option** holder notifying the **group** that it will not exercise the **option**, or the expiry of the **option**, whichever is earlier.

#### Guaranteed profits or net tangible assets

14A.57,  
14A.59(10)

66. The following apply if the **group** acquires a company or business from a **connected person**, and the **connected person** guarantees the profits or net tangible assets or other matters regarding the financial performance of the company or business.

14A.57,  
14A.59(10)

67. If the actual amount is less than the amount guaranteed, the **issuer** must disclose the following in an announcement and in its next annual report:

(1) the shortfall and any adjustment in the consideration for the **transaction**;

(2) whether the **connected person** has fulfilled its obligations under the guarantee;

(3) whether the **group** has exercised any **option** to sell the company or business back to the **connected person** or other rights it held under the terms of the guarantee, and the reasons for its decision; and

- (4) the independent non-executive *directors*' opinion:
- (a) whether the *connected person* has fulfilled its obligations; and
  - (b) whether the *group*'s decision to exercise or not to exercise any *options* or rights set out in paragraph 67(3) is fair and reasonable and in the interests of the shareholders as a whole.

When a proposed transaction becomes connected

14A.61,  
14A.62

68. If a *connected transaction* is also a notifiable transaction, the *issuer* must also comply with the requirements in Chapter 14.
69. If an *issuer* has entered into an agreement for a proposed *transaction* which is conditional on shareholders' approval in general meeting and the proposed *transaction* becomes a *connected transaction* before the shareholders' approval, the *issuer* must comply with the *connected transaction* requirements. Where a notice of meeting to approve the proposed *transaction* has been sent to shareholders, the *issuer* must issue a further announcement and a supplementary circular to disclose that the *transaction* has become a *connected transaction* and the parties that are required to abstain from voting. The circular must also contain information required for a *connected transaction* circular.

Checklists

14A.09

70. The *issuer* must complete and submit any checklists for *connected transactions* prescribed by the Exchange from time to time.

Size test checklist  
(CF006)

Announcement  
disclosure  
checklist  
(CF007M or  
CF007G)

Circular disclosure  
checklist  
(CF016M or  
CF016G)

## Section IV – Content requirements

71. This section sets out the information that an *issuer* must disclose in its announcements, circulars and annual reports.

### Announcements

72. An announcement for a *connected transaction* must contain at least:

- 14A.56(1) (1) the information set out in Rules 14.58 to 14.60 (contents of announcements for notifiable transactions);
- 14A.56(2) (2) the connected relationship between the parties to the *transaction*, and the *connected person*'s interests in the *transaction*;
- 14A.56(1) (3) the independent non-executive *directors*' views on the *transaction* if no shareholders' approval is required;

This includes whether the *transaction* is on *normal commercial terms*, whether its terms are fair and reasonable, and whether it is in the interests of the *issuer* and its shareholders as a whole.

- 14A.56(4) (4) if the *transaction* is a *continuing connected transaction*, the amount of its *cap*;

If a circular is not required, the *issuer* should also disclose how it determines and calculates the cap, including the assumptions and the amounts of previous *transactions* which form the basis of the *cap*.

- 14A.73(2) (5) if the *transaction* is a *qualified property acquisition* exempt from the shareholders' approval requirement (see paragraph 111):
- (a) the details of the acquisition;
  - (b) the details of the joint venture, including its terms and status, its dividend and distribution policy, its financial and capital commitment, and the *issuer*'s share in it; and
  - (c) information to demonstrate that the exemption conditions have been met;

- 14A.56(5) (6) if the *transaction* involves the *group* acquiring assets from a *connected person*, the original acquisition cost of the assets to the *connected person*;
- 14A.56(6) (7) if the *transaction* involves the *group* disposing of assets which it has held for 12 months or less, the *group*'s original acquisition cost of the assets;
- 14A.56(8) (8) if the announcement contains a *profit forecast* of the *group* or a company which is, or will become, the *issuer*'s *subsidiary*, the information set out in Rule 14.62 (requirements for *profit forecast* in notifiable transaction announcement);
- 14A.56(9) (9) if no circular is required, a statement whether any *directors* of the *issuer* have a *material interest* in the *transaction* and, if so, whether they have abstained from voting on the board resolution;
- 14A.56(3) (10) a statement that the *transaction* is subject to independent shareholders' approval, if applicable;
- 14A.56(7) (11) if the *transaction* is, or will be, approved by way of shareholders' written approval, details of the shareholders giving the approval (including their names and shareholdings in the *issuer*) and the relationship between the shareholders; and
- 14A.56(10) (12) if a circular is required, the expected date of distribution of the circular, and, if this is more than 15 business days after the publication of the announcement, the reasons why this is so.

### Circulars

73. A circular for a *connected transaction* must:

- 14A.58(1) (1) provide a clear and adequate explanation of its subject matter and demonstrate the advantages and disadvantages of the *transaction* for the *group*;
- 14A.58(2) (2) where practicable, include a numerical evaluation;
- 14A.58(3)(a) (3) contain all information necessary to allow the *issuer*'s shareholders to make a properly informed decision; and
- 14A.58(3)(b) (4) contain a heading drawing attention to the importance of the document and advising shareholders who are in any doubt to consult appropriate independent advisers on the appropriate course of action.

74. The circular must contain at least:

- 14A.59(1) (1) the Exchange’s disclaimer statement (see Rule 14.88) on its front cover or inside front cover;
- 14A.59(2)(a), (b), (c), (f), (13) to (16) (2) the information required to be disclosed in the announcement for the **transaction**;
- 14A.59(2)(a) (3) the identity and activities of the parties to the **transaction** and their ultimate beneficial owner(s);
- 14A.59(2)(d), (e) (4) the name of the **connected person** concerned, his/its relationship with any **controller** and the name and office held by that **controller**;
- 14A.59(9) (5) if the **transaction** is a **continuing connected transaction**, how the **issuer** determines and calculates the cap, including the assumptions and the amounts of previous **transactions** which form the basis of the cap;
- FAQ Series 9 No. 21
- 14A.59(7), (8) (6) a letter from each of the independent financial adviser and, if applicable, the independent board committee containing its opinion and recommendation on the **transaction** (see paragraphs 45 and 47);
- 14A.59(6), 14A.73(3) (7) if the **transaction** involves acquisition or disposal of any property interests or a company whose assets consist solely or mainly of property, a valuation and information on the property under Rule 5.03. This requirement does not apply to property acquired under a **qualified property acquisition**;
- FAQ Series 7 No. 54
- 14A.59(6) (8) if the primary significance of the asset (except for property interests) being acquired or disposed of is its capital value, an independent valuation of the asset;
- FAQ Series 7 No. 55 and 56
- 14A.59(17) (9) if the **transaction** involves an acquisition or disposal of a company or business engaging in an infrastructure project, a business valuation report on that company or business and/or traffic study report on the project. The report(s) must clearly set out:
- (a) all significant underlying assumptions including the discount rate or growth rate used; and
- (b) a sensitivity analysis based on different discount rates and growth rates.

If the business valuation is based on a profit forecast, the accounting policies and calculations for the underlying forecasts must be examined and reported on the auditors or reporting accountants. Any financial adviser mentioned in the circular must also report on the underlying forecasts.

- 14A.59(10) (10) if the **transaction** involves the **group** acquiring a company or business from a **connected person**, details of:
- (a) any guarantee of the profits or net tangible assets or other matters regarding the financial performance of the company or business provided by the **connected person**, and a statement by the **issuer** that it will comply with the disclosure requirements (see paragraph 67) if the actual amount is less than the amount guaranteed.
  - (b) any **option** granted to the **group** to sell the company or business back to the **connected person** and/or other rights given to the **group**;
- 14A.59(18) (11) a statement whether any **directors** of the **issuer** have a **material interest** in the **transaction** and, if so, whether they have abstained from voting on the board resolution;
- 14A.59(5) (12) a statement that any shareholder with a **material interest** in the **transaction** will not vote and the information required in Rule 2.17;
- 14A.59(3) (13) the information set out in the following paragraphs of Appendix 1, Part B:
- 1 — **issuer**'s name
  - 2 — **directors**' responsibility
  - 5 — expert statements
  - 10 — securities to be issued (if applicable)
  - 29(2) — requirements if there is a **profit forecast**
  - 32 — no material adverse change
  - 39 — **directors**' service contracts
  - 40 — **directors**' interests in assets
  - 43(2)(a) & (c) — documents on display
- 14A.59(4) (14) information regarding **directors**' and **chief executive**'s interests in the **issuer** described in paragraphs 34 and 38 of Appendix 1, Part B, and Practice Note 5;
- 14A.59(11) (15) information regarding the competing interests of each of the **group**'s **directors** and his **associates** as would be required to be disclosed under Rule 8.10 as if each of them was a **controlling shareholder**; and
- 14A.59(19) (16) any additional information requested by the Exchange.

## Annual reports

14A.45,  
14A.46

75. The *issuer*'s annual report must contain the following information on the *connected transactions* conducted in that financial year (including *continuing connected transactions* under agreements signed in previous years):

- (1) the *transaction* date;
- (2) the parties to the *transaction* and a description of their connected relationship;
- (3) a brief description of the *transaction* and its purpose;
- (4) the total consideration and terms;
- (5) the nature of the *connected person*'s interest in the *transaction*;
- (6) for *continuing connected transactions*,
  - (a) a confirmation from the *issuer*'s independent non-executive *directors* on the matters set out in paragraph 59; and
  - (b) a statement from the *issuer*'s board of *directors* whether the auditors have confirmed the matters set out in paragraph 60.

14A.37,  
14A.38

76. When the *issuer* discloses in its annual report information of any related party transaction under the accounting standards for preparing its financial statements, it must specify whether the *transaction* is a *connected transaction* under Chapter 14A and whether it has complied with the requirements in the Chapter.

App 16 –  
Para 8(3)

## Section V – Exemptions

77. Exemptions from the *connected transaction* requirements are available for the following types of *transactions*:
- (1) de minimis *transactions* (paragraph 80);
  - (2) *financial assistance* (paragraphs 92 to 95);
  - (3) issues of new securities by the *issuer* or its *subsidiary* (paragraph 96);
  - (4) dealings in securities on stock exchanges (paragraph 98);
  - (5) repurchases of securities by the *issuer* or its *subsidiary* (paragraph 99);
  - (6) *directors'* service contracts (paragraph 100);
  - (7) buying or selling of consumer goods or services (paragraphs 101 and 102);
  - (8) sharing of administrative services (paragraphs 103 and 104) ;
  - (9) *transactions* with persons connected with *insignificant subsidiaries* (paragraphs 105 to 108);
  - (10) *transactions* with *associates* of *passive investors* (paragraphs 109 and 110); and
  - (11) *qualified property acquisitions* (paragraphs 111 to 113).
78. The exemptions are broadly divided into two categories: (1) fully exempt from shareholders' approval, annual review and all disclosure requirements; and (2) exempt from shareholders' approval requirement.
79. The Exchange has the power to specify that an exemption will not apply to a particular *transaction*.

14A.06,  
14A.30

### De minimis transactions

80. This exemption applies to a *connected transaction* (other than an issue of new securities by the *issuer*) conducted on *normal commercial terms*.
- (1) The *transaction* is fully exempt if all the *percentage ratios* (other than the profits ratio) are:
    - (a) less than 0.1%;

14A.31(2),  
14A.33(3),  
14A.65(2)(b)

- (b) less than 1% and the *transaction* is a *connected transaction* only because it involves *connected person(s) at the subsidiary level*; or
- (c) less than 5% and the total consideration (or in the case of any *financial assistance*, the total value of the *financial assistance* plus any *monetary advantage* to the *connected person* or *commonly held entity*) is less than HK\$1,000,000.

14A.32,  
14A.34,  
14A.66(2)

- (2) The *transaction* is exempt from circular (including independent financial advice) and shareholders' approval requirements if all the *percentage ratios* (other than the profits ratio) are:
  - (a) less than 5%; or
  - (b) less than 25% and the total consideration (or in the case of any *financial assistance*, the total value of the *financial assistance* plus any *monetary advantage* to the *connected person* or *commonly held entity*) is less than HK\$10,000,000.

#### Percentage ratio calculations

81. The methods of *percentage ratio* calculations set out in Chapter 14 (notifiable transactions) also apply to *connected transactions* in Chapter 14A subject to the modifications described below.

14A.33(3)

82. For *continuing connected transactions*, the *issuer* should calculate the assets ratio, revenue ratio and consideration ratio using the annual *cap* as the numerator. If the agreement for the *transaction* covers over 1 year, the *transaction* will be classified based on the largest annual *cap* during the term of the agreement.

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14A.68

83. The following applies when calculating *percentage ratios* for *connected transactions* involving *options*:

14A.69(1)

(1) If the *group* grants an *option* to a *connected person* and the *group* does not have discretion to exercise the *option*, it is classified as if the *option* has been exercised. The *percentage ratios* are calculated based on the consideration for the *transaction* (which includes the premium and the exercise price of the *option*), the value of the underlying assets, and the revenue attributable to the assets. (See paragraphs 65 for the disclosure requirement when the *option* holder exercises or transfers the *option*, or when the *option* expires.)

14A.70(1)

(2) If the *group* acquires or accepts an *option* granted by a *connected person* where the *group* has discretion to exercise the *option*, it is classified based on the amount of the premium payable by the *group*.

However, if the premium represents 10% or more of the sum of the premium and the exercise price, the *transaction* will be classified as if the *option* has been exercised (see paragraph 83(1)).

14A.70(2)

- (3) If the *group* exercises an *option* granted by a *connected person*, it is classified based on the exercise price, the value of the underlying assets, and the revenue attributable to the assets. If the *option* is exercised in stages, the Exchange may require aggregation of the *transactions*.

14A.70(3)

- (4) If the *group* transfers an *option* granted by a *connected person* to a third party or decides not to exercise the *option*, it is classified as if the *option* has been exercised. The *percentage ratios* are calculated based on the exercise price, the value of the underlying assets, and the revenue attributable to the assets, and (if applicable) the premium for transferring the *option*.

14A.71

- (5) If the actual monetary value of the premium, the exercise price, the value of the underlying assets and the revenue attributable to the assets have not been determined when the *group* grants or acquires/accepts the *option*:
- (a) The *issuer* must demonstrate to the Exchange's satisfaction the highest possible monetary value for calculating the *percentage ratios* and classifying the *transaction*. If the *issuer* is unable to do so, it may be required to comply with all the *connected transaction* requirements for the *transaction*.
  - (b) The *issuer* must inform the Exchange when the actual monetary value has been determined. If the *transaction* falls under a higher classification based on the actual monetary value, the *issuer* must as soon as reasonably practicable announce this fact and comply with the requirements applicable to the higher classification.

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84. The requirements in paragraph 83 are the same as the requirements applicable to *options* under Chapter 14 (notifiable transactions), except that

- (1) Under Chapter 14, the *issuer* may, at the time of the *group* acquiring or accepting an *option* granted by a third party, seek shareholders' approval for its exercise of the *option* in the future. This is not allowed under Chapter 14A.
- (2) Under Chapter 14, transfer of an *option* by the *group* is a *transaction* which is classified based on the consideration for transferring the *option*. Under Chapter 14A, the transfer is classified as if the option is exercised.

- (3) Non-exercise of an *option* is not a *transaction* under Chapter 14.

Exception to percentage ratio calculations

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No. 45

85. If any *percentage ratio* produces an anomalous result or is inappropriate to the activity of the *issuer*, the Exchange may disregard the ratio and consider alternative test(s) provided by the *issuer*. The *issuer* should seek prior consent of the Exchange if it wishes to apply this rule.

Aggregation of transactions

14A.25

86. The Exchange will aggregate a series of *connected transactions* and treat them as if they were one *transaction* if they were all entered into or completed within a 12-month period or are otherwise related. The *issuer* must comply with the applicable *connected transaction* requirements based on the classification of the *connected transactions* when aggregated. The aggregation period will cover 24 months if the *connected transactions* are a series of acquisitions of assets being aggregated which may constitute a reverse takeover.

14A.26

87. Factors that the Exchange will consider for aggregation of a series of *connected transactions* include whether:
- (1) they are entered into by the *group* with the same party, or parties who are connected with one another;
  - (2) they involve the acquisition or disposal of parts of one asset, or interests in a company or group of companies; or
  - (3) they together lead to substantial involvement by the *group* in a new business activity.

14A.27

88. The Exchange may aggregate all *continuing connected transactions* with a *connected person*.

14A.27A

89. An *issuer* must consult the Exchange before the *group* enters into any *connected transaction* if:
- (1) the *transaction* and any other *connected transactions* entered into or completed by the *group* in the last 12 months fall under any of the circumstances described in paragraph 87; or
  - (2) the *transaction* and any other *transactions* entered into by the *group* involve the acquisition of assets from a person or group of persons or any of their *associates* within 24 months after the person(s) gain control (as defined in the Takeovers Code) of the *issuer*.

90. The *issuer* must provide information to the Exchange on whether it should aggregate the *transactions*.
91. The Exchange may aggregate an *issuer*'s *connected transactions* even if the *issuer* has not consulted the Exchange.

### Financial assistance

#### Financial assistance provided by the group

LD76-1,  
FAQ Series 1  
No. 55

92. For any *financial assistance* provided by a *banking company* in its *ordinary and usual course of business* to a *connected person* or *commonly held entity*:

14A.65(1)

- (1) The *transaction* is fully exempt if it is conducted on *normal commercial terms* (or better to the *banking company*); or

14A.65(2)(a)

- (2) The *transaction* is fully exempt if it is not conducted on *normal commercial terms* (or better to the *banking company*) but all the *percentage ratios* (other than the profits ratio) are:

- (a) less than 0.1%;
- (b) less than 1% and the *transaction* is a *connected transaction* only because it involves *connected person(s) at the subsidiary level*; or
- (c) less than 5% and the total value of the *financial assistance* plus any *monetary advantage* to the *connected person* or *commonly held entity* is less than HK\$1,000,000.

14A.66(1)

- (3) The *transaction* is exempt from circular (including independent financial advice) and shareholders' approval requirements if it is not conducted on *normal commercial terms* (or better to the *banking company*) but all the *percentage ratios* (other than the profits ratio) are:

- (a) less than 5%; or
- (b) less than 25% and the total value of the *financial assistance* plus any *monetary advantage* to the *connected person* or *commonly held entity* is less than HK\$10,000,000.

14A.10(1)

93. A "*banking company*" is an *issuer* or its *subsidiary* which is a bank, a restricted licence bank or a deposit taking company as defined in the Banking Ordinance, or a bank under an appropriate overseas authority.

14A.65(3)

94. *Financial assistance* provided by a *group* to a *connected person* or *commonly held entity* is fully exempt if it is conducted:

- (1) on *normal commercial terms* (or better to the **group**); and
- (2) in proportion to the equity interest directly held by the *issuer* or its *subsidiary* in the *connected person* or the *commonly held entity*. Any guarantee given by the **group** must be on a several (and not a joint and several) basis.

14A.64

Financial assistance received by the group

14A.65(4)

95. *Financial assistance* received by a **group** from a *connected person* or *commonly held entity* is fully exempt if:

- (1) it is conducted on *normal commercial terms* (or better to the **group**); and
- (2) it is not secured by the **group**'s assets.

**Issue of new securities by an issuer or its subsidiary**

96. An issue of new securities by an *issuer* or its *subsidiary* to a *connected person* is fully exempt if:

14A.31(3)(a)

- (1) the *connected person* receives a pro rata entitlement to the issue as a shareholder;
- (2) the *connected person* subscribes for the securities in a rights issue or open offer:

14A.31(3)(c) – N2

(a) through excess application (see Rule 7.21(1) or 7.26A(1)); or

14A.31(3)(c)

14A.31(3)(c) – N1

(b) in his/its capacity as an underwriter or sub-underwriter of the rights issue or open offer, and Rule 7.21 or 7.26A (arrangements to dispose of any excess securities) has been complied with. In this case, the listing document must contain the terms and conditions of the underwriting arrangement;

*Note: Any commission and fees payable by the **group** to the *connected person* for the underwriting arrangement are not exempt under this exemption.*

14A.31(3)(b)

- (3) the securities are issued to the *connected person* under:
  - (a) a share option scheme that complies with Chapter 17; or
  - (b) a share option scheme adopted by the *issuer* before its securities first start dealing on the Exchange, and where the Exchange has approved the listing of the securities to be issued under the scheme; or

14A.31(3)(d)

- (4) the securities are issued under a “top-up placing and subscription” that meets the following conditions:
- (a) the new securities are issued to the **connected person**:
    - (i) after it has reduced its holding in the same class of securities by placing them to independent third parties under a placing agreement; and
    - (ii) within 14 days from the date of the placing agreement;
  - (b) the number of new securities issued to the **connected person** does not exceed the number of securities placed by it; and
  - (c) the new securities are issued at a price not less than the placing price. The placing price may be adjusted for the expenses of the placing.

97. An issue of new securities by a **subsidiary** of the **issuer** may be fully or partially exempt as a de minimis **transaction**.

#### Dealings in securities on stock exchanges

14A.31(4)

98. Dealing in securities of a **target company** (i.e. a **connected transaction** described in paragraph 27) by the **group** is fully exempt if it meets the following conditions:
- (1) the dealing in the securities is conducted as part of the **group’s ordinary and usual course of business**;
  - (2) the securities are listed on the Exchange or a **recognised stock exchange**;
  - (3) the dealing is carried out on the Exchange or a **recognised stock exchange**, or if not, no consideration passes to or from a **connected person**; and
  - (4) the **transaction** is not made for the purpose of conferring a direct or indirect benefit upon any **connected person** who is a **substantial shareholder** of the **target company**.

#### **Repurchases of own securities**

14A.31(5)

99. Repurchases of own securities by an **issuer** or its **subsidiary** from a **connected person** is fully exempt if it is made:

- (1) on the Exchange or a *recognised stock exchange*, except where the *connected person* knowingly sells the securities to the *group*; or
- (2) in a general offer made under the Code on Share Repurchases.

#### **Directors' service contracts**

14A.31(6)

LD 76-4

100. A *director* entering into a service contract with the *issuer* or its *subsidiary* is fully exempt.

#### **Buying or selling consumer goods or consumer services**

14A.31(7),  
14A.33(1)

101. A *group* buying consumer goods or services as a customer from, or selling consumer goods or services to, a *connected person* on *normal commercial terms in the ordinary and usual course of business* is fully exempt if it meets the following conditions:

- (1) the goods or services must be of a type ordinarily supplied for private use or consumption;
- (2) they must be for the buyer's own consumption or use, and not be:
  - (a) processed into the buyer's products, or for resale; or
  - (b) used by the buyer for any of its businesses or contemplated businesses. This condition does not apply if the *group* is the buyer and there is an open market and transparency in the pricing of the goods or services;
- (3) they must be consumed or used by the buyer in the same state as when they were bought;
- (4) the total consideration or value of the goods or services must be less than 1% of the *group*'s total revenue or total purchases, as published in its latest audited accounts; and
- (5) the *transaction* must be made on no more favourable terms to the *connected person*, or no less favourable terms to the *group* than those available from independent third parties.

102. Examples of consumer goods and services are:

- (1) Meals consumed by a *director* at a restaurant owned by the *group*.
- (2) A *director* buying groceries for his own use at a retail store operated by the *group*.
- (3) Utilities provided by the *group* to a *director*'s apartment.

- (4) Utilities provided by a **connected person** to the **group** where the prices are published or publicly quoted and apply to other independent consumers.

#### Shared administrative services

14A.31(8),  
14A.33(2)

103. Administrative services shared between the **group** and a **connected person** on a cost basis are fully exempt, provided that the costs are identifiable and are allocated to the parties involved on a fair and equitable basis.
104. Examples of shared administrative services are shared secretarial, legal and staff training services.

#### Transactions with persons connected with insignificant subsidiaries

14A.31(9),  
14A.33(4)

105. A **connected transaction** on **normal commercial terms** is fully exempt if it meets the following conditions:
- (1) it is a **connected transaction** because it involves a person who is connected solely because of his/its relationship with the **issuer's insignificant subsidiary/subsidiaries**; and
  - (2) the consideration ratio of the **transaction** is less than 10%. This condition applies only if:
    - (a) the **subsidiary** (or any of its **subsidiaries**) is a party to the **transaction**, or the securities or assets of the **subsidiary** (or any of its **subsidiaries**) are the subject of the **transaction**; and
    - (b) the **transaction** is of a capital nature.

14A.31(9),  
14A.33(4)

106. An “**insignificant subsidiary**” is the **issuer's subsidiary** whose total assets, profits and revenue are less than:
- (1) 10% under the **percentage ratios** for each of the latest three financial years (or if less, the period since the incorporation or establishment of the **subsidiary**); or
  - (2) 5% under the **percentage ratios** for the latest financial year.
107. If the person is connected with two or more **subsidiaries** of the **issuer**, the Exchange will aggregate the **subsidiaries' total assets, profits and revenue** to determine whether they are together “**insignificant subsidiaries**” of the **issuer**.
108. When calculating the **percentage ratios**, 100% of the **subsidiaries' total assets, profits and revenue** will be used. If the **percentage ratio** produces an

anomalous result, the Exchange may disregard the calculation and consider alternative test(s) provided by the *issuer*.

### Transactions with associates of passive investors

14A.31(10),  
14A.33(5)

109. A *connected transaction* conducted between the *group* and an *associate* of a *passive investor* is fully exempt if it meets the following conditions:

- (1) the *passive investor* is a *connected person* only because it is a *substantial shareholder* of the *issuer* and/or any of its *subsidiaries*;
- (2) the *passive investor*
  - (a) is not a *controlling shareholder* of the *issuer* or its *subsidiaries*;
  - (b) does not have any representative on the board of *directors* of the *issuer* or its *subsidiaries*, and is not involved in the management of the *group*, including any influence over the *group*'s management through negative control (e.g. its veto rights) on material matters of the *group*;
  - (c) is independent of the *directors*, *chief executive*, *controlling shareholder*(s) and any other *substantial shareholder*(s) of the *issuer* or its *subsidiaries*; and
- (3) the *transaction* is of a revenue nature in the *group*'s *ordinary and usual course of business*, and conducted on *normal commercial terms*.

110. A “*passive investor*” is a *substantial shareholder* of the *issuer* and/or any of its *subsidiaries* that:

- (1) is a sovereign fund, or a unit trust or mutual fund authorised by the Securities and Futures Commission or an appropriate overseas authority; and
- (2) has a wide spread of investments other than the securities of the *group* and the *associate* that enters into the *transaction* with the *group*.

### Qualified property acquisitions

14A.72

111. The formation of a joint venture by a *qualified issuer* and a *qualified connected person* to make a *qualified property acquisition* is exempt from shareholders' approval requirements if:

- (1) the project will be single purpose, relating to the acquisition and/or development of a specific property, and consistent with the purpose specified in the auction or tender document;

- (2) the joint venture arrangement is on an arm's length basis and on ***normal commercial terms***;
- (3) the joint venture agreement contains clause(s) to the effect that the joint venture may not, without its partners' unanimous consent:
  - (a) change the nature or scope of its business, and, if there are changes, they must be consistent with the scope or purpose specified in the auction or tender document; or
  - (b) enter into any ***transactions*** which are not on an arm's length basis; and
- (4) the independent board committee and independent financial adviser have confirmed that:
  - (a) the acquisition is in the ***group's ordinary and usual course of business***; and
  - (b) the acquisition and the joint venture, including its financing and profit distribution arrangements, are on ***normal commercial terms***, are fair and reasonable and in the interests of the ***issuer*** and its shareholders as a whole.

14A.10(10A)

112. A ***qualified connected person*** is a ***connected person*** of the ***qualified issuer*** solely because he/it is a ***substantial shareholder*** (or its ***associate***) in one or more of the ***qualified issuer's*** non wholly-owned ***subsidiaries*** formed to participate in property projects, each of which is single purpose and project specific. This person may or may not have representation on the board of the ***subsidiary/subsidiaries***.

14A.73(1),  
14A.73(2) – N

113. The ***issuer*** shall announce the ***transaction*** as soon as practicable after receiving notification of the success of the bid by the joint venture. If any details of the acquisitions or the joint venture required to be disclosed are not available when the ***issuer*** publishes the initial announcement, it must publish subsequent announcement(s) to disclose the details as soon as practicable after they have been agreed or finalized.

## Section VI – Waivers

14A.07,  
14A.44

114. The Exchange may waive any requirements under Chapter 14A in individual cases, subject to any conditions that it may impose.

### Transactions relating to non-executive directors

115. The Exchange may waive the circular and shareholders' approval requirements for a *connected transaction* with a non-executive *director* of the *issuer* or its *subsidiaries* if:

14A.42(1)

- (1) the *transaction* is connected only because of the interest of a non-executive *director*;
- (2) the *director* does not control the *group*, and his principal business interest is not the *group*; and
- (3) the *issuer's* auditor or an acceptable financial adviser has given the opinion that the *transaction* is fair and reasonable to the shareholders as a whole.

### Provision of guarantees to connected persons or commonly held entities for public sector contracts awarded by tender

14A.42(2)

116. The Exchange may waive all or some of the *connected transaction* requirements for a joint and several guarantee or indemnity provided by the *group* to a third party creditor for the obligations of a *connected subsidiary* or a *commonly held entity* if:

- (1) the guarantee/indemnity is required for a government or public sector contract awarded by tender;
- (2) each of the other shareholders of the *connected subsidiary* or *commonly held entity* has given a similar joint and several guarantee or indemnity to the third party creditor; and
- (3) each of the other shareholders of the *connected subsidiary* or *commonly held entity* has agreed to indemnify the *group* for the liability guaranteed, or indemnified at least in proportion to its equity interest in the *subsidiary* or entity. The *issuer* must satisfy the Exchange that such shareholder indemnity is sufficient.

### Continuing connected transactions of new applicants

14A.42(3)

117. The Exchange may waive the announcement, circular and shareholders' approval requirements for *continuing connected transactions* entered into by a new applicant or its *subsidiaries*. The new applicant must disclose in the listing document its sponsor's opinion on whether the *transactions* are in the

*group's ordinary and usual course of business, on normal commercial terms,*  
are fair and reasonable and in the interests of the shareholders as a whole.

## Glossary

Key terms used in this Guide have the meanings stated below:

“**30%-controlled company**” – a company held by a person who can:

- (1) exercise or control the exercise of 30% (or an amount for triggering a mandatory general offer under the Takeovers Code, or for **PRC issuers** only, an amount for triggering a mandatory general offer or establishing legal or management control over a business enterprise under the **PRC** law) or more of the voting power at general meetings, or
- (2) control the composition of a majority of the board of **directors**

“**associate**” – see paragraphs 7 to 10

“**banking company**” – see paragraph 93

“**chief executive**” – see Rule 1.01

“**closely allied group of shareholders**” – see Rule 14.45

“**commonly held entity**” – see paragraph 26

“**connected person**” – see paragraphs 5 and 6

“**connected person at the issuer level**” –

- (1) a **director, chief executive, substantial shareholder** of an **issuer**;
- (2) a **supervisor** of a **PRC issuer**;
- (3) a person who was a **director** of the **issuer** in the last 12 months; or
- (4) an **associate** of any of the above persons

“**connected person at the subsidiary level**” – a person who is a **connected person** only because of the person’s connection with the **issuer**’s **subsidiary** or **subsidiaries**

“**connected subsidiary**” – see paragraph 11

“**connected transaction**” – see paragraphs 24 to 33

“**continuing connected transaction**” – see paragraph 33

“**controller**” – see paragraph 27(1)

“**controlling shareholder**” – see Rule 1.01

- 14A.10(13)(a) “*deemed disposal*” – see Rule 14.29
- “*depository*” – see Rule 1.01
- “*depository receipt*” – see Rule 1.01
- “*director*” – see Rule 1.01
- “*family member*” – see paragraph 7(2)(a)
- “*financial assistance*” – see paragraph 23(4)
- “*financial assistance provided in the ordinary and usual course of business*” – *financial assistance* provided by a *banking company*
- 14A.10(6), (7) “*group*” – an *issuer* and its *subsidiaries*, or any of them
- “*immediate family member*” – see paragraph 7(1)
- “*insignificant subsidiary*” or “*insignificant subsidiaries*” – see paragraphs 106 to 108
- 14A.10(6), (7) “*issuer*” – a company or other legal person whose securities (including *depository receipts*) are listed
- “*majority-controlled company*” – a company held by a person who can exercise or control the exercise of more than 50% of the voting power at general meetings, or control the composition of a majority of the board of *directors*
- “*material interest*” in a *transaction* – see Rules 2.15 and 2.16
- “*monetary advantage*” – see Rule 14.12
- 14A.10(8) “*normal commercial terms*” – terms which a party could obtain if the *transaction* were on an arm’s length basis or terms no less favourable to the *group* than terms available to or from independent third parties
- 14A.67 “*options*” and terms related to it (including “*exercise price*”, “*premium*” and “*expiration*”) – see Rule 14.72
- 14A.10(9) “*ordinary and usual course of business*” of an entity – the entity’s existing principal activities or an activity wholly necessary for its principal activities
- “*passive investor*” – see paragraph 110
- 14A.10(10) “*percentage ratios*” – see Rule 14.04(9)
- 14A.56(8) “*profit forecast*” – see Rule 14.61

“*PRC*” – see Rule 19A.04

“*PRC Governmental Body*” – see Rule 19A.04

“*PRC issuer*” – see Rule 19A.04

14A.10(10A) “*qualified connected person*” – see paragraph 112

14A.10(10B) “*qualified issuer*” – see Rule 14.04(10B)

14A.10(10C) “*qualified property acquisition*” – see Rule 14.04(10C)

14A.10(11) “*recognised stock exchange*” – a regulated, regularly operating, open stock market recognized for this purpose by the Exchange

“*relative*” – see paragraph 16(1)(a)

“*subsidiary*” – see Rule 1.01

“*substantial shareholder*” – see Rule 1.01

“*supervisor*” – see Rule 19A.04

“*transaction*” – see paragraph 23

“*trustees*” – see paragraphs 7(1)(b) and 8(2)