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# Hong Kong Stock Exchange Publishes Guide To Connected Transaction Rules

On 20 April, The Stock Exchange of Hong Kong Limited (**HKEx** or the **Exchange**) published a plain language guide to the requirements for connected transactions (including continuing connected transactions) set out in the Main Board Listing Rules (the **Rules**) covering the Rules’ requirements and interpretations published in listing decisions and FAQs. The stated purpose of the Guide on Connected Transaction Rules (the **Guide**) is to assist listed issuers to understand and comply with the connected transaction Rules.

Listed issuers should be aware that the Guide is not a part of the Rules and does not have the status of a guidance or practice note. The Exchange regards the Guide as a work-in-progress, which may not be absolutely accurate and complete. The safest way to ensure compliance with the connected transaction Rules is to refer to the Rules themselves (primarily Chapter 14A) and to seek advice from qualified professionals, if necessary.

The Guide is available on [the HKEx website](http://www.hkex.com.hk/eng/rulesreg/listrules/listguid/Documents/ctguide_e.pdf) and includes explanations of connected persons, connected transactions, the requirements for connected transactions, the available exemptions and situations in which the Exchange may waive the Rules’ requirements.

Of the six sections that comprise the Guide, Section I illustrates the definitions of connected persons and their associates. The definition of an associate in the connected transaction Rules is slightly different from that in the rest of the Rules. Issuers may find the diagrams and examples in the Guide that explain these concepts to be helpful.

Section II explains the types of transactions that constitute connected transactions and continuing connected transactions, including transactions that are not with a connected person but may nonetheless confer benefits on a connected person. Part of this section explains the concept of commonly held entities and that financial assistance to or from commonly held entities are connected transactions. The term “commonly held entity” is not used in the Rules, but the term refers to a company falling within Rule 14A.13(2)(a)(ii) or 14A.13(2)(b)(ii).

Section III summarises the written agreement, announcement, circular, shareholders’ approval and annual reporting requirements applicable to connected transactions, as well as the annual cap and annual review requirements which apply only to continuing connected transactions. Section IV summarises the content requirements for announcements, circulars and annual reports.

Section V deals with the exemptions to the connected transaction Rules, which allow issuers to ignore either all the requirements summarised in Sections III and IV or just the shareholders’ approval requirement. One exemption, for intra-group transactions, is not included in this section, but is summarised in Section I as part of the definition of connected subsidiaries. In any case, the Exchange reserves the right to decide whether an exemption applies to a particular transaction.

Lastly, Section VI describes the Exchange’s power to waive any of the requirements under the connected transaction Rules, subject to any conditions that it may impose. For example, new applicants for listing may apply for a waiver from the announcement, circular and shareholders’ approval requirements for continuing connected transactions, subject to the listing document’s disclosure of the sponsor’s opinion on whether the transactions are:

1. in the applicant’s group’s ordinary and usual course of business;
2. on normal commercial terms;
3. fair and reasonable; and
4. in the interests of the shareholders as a whole.

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