

# CONSULTATION PAPER

ON ACCEPTANCE OF MAINLAND ACCOUNTING  
AND AUDITING STANDARDS AND  
MAINLAND AUDIT FIRMS FOR  
MAINLAND INCORPORATED COMPANIES  
LISTED IN HONG KONG

**August 2009**



Hong Kong Exchanges and Clearing Limited  
香港交易及結算所有限公司



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## How to Respond to this Consultation Paper

We invite interested parties to submit written comments on the matters discussed in this consultation paper no later than **23 October 2009**. Responses to the paper should, if possible, be made by completing and returning the Questionnaire which is available at: [http://www.hkex.com.hk/consul/paper/cp200908q\\_e.doc](http://www.hkex.com.hk/consul/paper/cp200908q_e.doc) by one of the following methods:

By mail to: Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12<sup>th</sup> Floor, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

**Re: Consultation Paper on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong**

By fax to: (852) 2524-0149

By email to: [response@hkex.com.hk]

Please mark in the subject line:

**Re: Consultation Paper on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong**

Our submission enquiry number is (852) 2840-3844.

Our policy on handling personal data is set out in **Appendix 7** and the Questionnaire.

In the Questionnaire, we invite interested parties to give views on the proposed changes, and where appropriate support the answers with reasons. Respondents should reply to the questions against the backdrop of this Consultation Paper. For the purpose of the public consultation, respondents are reminded that we will publish responses on a named basis unless you advise us that you do not wish your name to be published. Please refer to the Questionnaire on how to complete it.

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## EXECUTIVE SUMMARY

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This public consultation seeks views and comments from interested parties on whether The Stock Exchange of Hong Kong Limited (the “Exchange”), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (“HKEx”) should adopt proposals:-

- (a) to accept Mainland accounting and auditing standards for Main Board and GEM issuers that are incorporated in the Mainland; and
- (b) to allow Mainland audit firms to service these issuers.

We believe that the proposals would:

- (a) provide Mainland incorporated listed issuers with alternative accounting standards and audit firms that may be used;
- (b) increase market efficiency and reduce compliance costs of Mainland incorporated companies listed in Hong Kong;
- (c) promote more timely disclosure of information to investors to enable them to make informed and timely investment decisions; and
- (d) provide sufficient investor protection.

The background to these issues is set out in Chapter 1 of this paper. The detailed consultation proposals are set out in Chapters 2 and 3.

We also seek comments on draft amendments to the Main Board Listing Rules and the GEM Listing Rules (together, the Rules) that would implement the consultation proposals. The draft Rule amendments are set out at **Appendix 6** of this paper. These also include housekeeping amendments to update and clarify the existing Rules.

We will work with the Securities and Futures Commission to consider the comments received and, if appropriate, develop Rule amendments to implement the conclusions from this consultation.

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## Summary of Abbreviations used

CASBE	China Accounting Standards for Business Enterprises
CPA	Certified Public Accountant
CSQC5101	China Standards on Quality Control
CSRC	China Securities Regulatory Commission
Exchange	The Stock Exchange of Hong Kong Limited
FRC	Financial Reporting Council
FSTB	Financial Services and the Treasury Bureau
GEM	GEM Listing Rules
HKEx	Hong Kong Exchanges and Clearing Limited
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSQC1	Hong Kong Standards on Quality Control
IAASB	International Auditing and Assurance Standards Board of the International Federation of Accountants
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
Main Board	Main Board Listing Rules
MOU	Memorandum of Understanding
MOF	Ministry of Finance
PAO	Professional Accountants Ordinance
Rules	Main Board Listing Rules and GEM Listing Rules
SFC	Securities and Futures Commission
US GAAP	Generally Accepted Accounting Principles in the United States of America

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## CHAPTER 1

### INTRODUCTION

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1. The Stock Exchange of Hong Kong Limited (the “Exchange”), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (“HKEx”) is seeking the market’s views on proposals to accept financial statements prepared under Mainland accounting standards and audited by Mainland auditors for Mainland incorporated companies listed in Hong Kong.
2. This consultation paper explains the proposed framework. The framework applies only to companies incorporated in the Mainland which prepare financial statements (for IPOs, annual reports and circulars and other regulatory reports) using China Accounting Standards for Business Enterprises (“CASBE”) and audited with China Auditing Standards. The proposals will also allow certain Mainland audit firms approved and registered with the Ministry of Finance (“MOF”) of China and the China Securities Regulatory Commission (“CSRC”) to act as reporting accountants and auditors of Mainland incorporated companies listed in Hong Kong.
3. As a reciprocal arrangement, the Mainland would operate a parallel scheme. The Mainland scheme would be applicable to companies incorporated or registered in Hong Kong preparing financial statements (for IPOs, annual reports and circulars and other regulatory reports) using Hong Kong Financial Reporting Standards (“HKFRS”) or International Financial Reporting Standards (“IFRS”) and audited by Hong Kong audit firms registered with the Hong Kong Institute of Certified Public Accountants (“HKICPA”) using Hong Kong Standards on Auditing or International Standards on Auditing.
4. The Exchange considers it appropriate to consult on the proposed framework that has been developed. The framework is a joint effort of the Hong Kong regulators with input from representatives from the Financial Services and Treasury Bureau (“FSTB”), the SFC, the Financial Reporting Council (“FRC”), the HKICPA and the Exchange. The MOF and CSRC provided views and input from the Mainland side.
5. The draft rule amendments included in this paper to implement the proposals have been prepared in consultation with the staff of the Securities and Futures Commission (“SFC”).

#### **Why Reform now?**

6. Over the past several years an increasing number of jurisdictions have adopted or are converging their national accounting standards to International Financial Reporting Standards (“IFRS”). HKFRS became fully converged with IFRS as from 1 January 2005 and the International Accounting Standard Board’s (“IASB”) website indicates that as at 30 June 2009 more than 100 countries require, permit the use of, or have a policy of convergence with, IFRS. These countries include the world’s major stock markets in Europe, the United Kingdom, Australia and the United States.

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7. In the past, accounting standards in the Mainland were substantially different from HKFRS and IFRS. However, in February 2006, the MOF announced the implementation of new Mainland accounting standards that brought substantial convergence between Mainland accounting standards and IFRS. With effect from 1 January 2007, all companies incorporated and listed on the Mainland stock exchanges must apply the new Mainland accounting standards.
  8. Moreover, on 6 December 2007, the China Accounting Standards Committee and the HKICPA signed a joint declaration on the convergence of CASBE and HKFRS effective on that date. The parties declared their commitment to maintain convergence of CASBE and HKFRS on an ongoing basis.
  9. On the same date the China Auditing Standards Board and the HKICPA signed a joint declaration on the convergence of Mainland auditing standards with Hong Kong auditing standards and similarly declared their commitment to maintain convergence of their auditing standards on an on-going basis.
  10. In the light of the joint declarations, regulators in the Mainland and Hong Kong agreed to explore and develop a framework to facilitate acceptance of financial reports prepared under accounting standards and audited under auditing standards of one jurisdiction for listing in the other jurisdiction.
  11. The Hong Kong regulators believe that the proposals would:
    - (a) provide Mainland incorporated listed issuers with alternative accounting standards and audit firms that may be used;
    - (b) increase market efficiency and reduce compliance costs of Mainland incorporated companies listed in Hong Kong;
    - (c) promote more timely disclosure of information to investors to enable them to make informed and timely investment decisions; and
    - (d) provide sufficient investor protection.
  12. In summary, the key features of the proposed framework (see **Appendix 1**) are:-
    - (a) The framework applies only to Hong Kong listed issuers incorporated in the Mainland preparing financial statements (for IPOs, annual reports and circulars and other regulatory reports) using CASBE, IFRS or HKFRS, and audited with Mainland Auditing Standards, International Standards on Auditing or Hong Kong Standards on Auditing by Mainland audit firms.
    - (b) As a reciprocal arrangement, the Mainland would operate a parallel scheme to accept financial statements of Hong Kong companies listed in the Mainland. The Mainland scheme would be applicable to companies incorporated or registered in Hong Kong preparing financial statements (for IPOs, annual reports and circulars and other regulatory reports) using HKFRS or IFRS, and audited with Hong Kong Standards on Auditing or International Standards on Auditing by Hong Kong audit firms.
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- (c) Pre-conditions for the scheme are:-
- (i) convergence of CASBE and Mainland auditing standards with the accounting and auditing standards issued by HKICPA, which are based on pronouncements issued by the IASB and the International Auditing and Assurance Standards Board (“IAASB”) of the International Federation of Accountants (“IFAC”) respectively; and
  - (ii) overall equivalence of the quality assurance or practice review systems over the quality of work of audit firms in Hong Kong and the Mainland based on an assessment made on behalf of the Exchange by HKICPA.
- (d) Audit firms intending to provide audit and related services to listed issuers will be required to meet qualification requirements to ensure that work is carried out to the necessary standard. In addition to meeting the qualification requirements agreed between the Mainland and Hong Kong regulators, the vetting authorities MOF and CSRC, and HKICPA may consider setting additional requirements.
- (e) Audit firms falling under the scheme will be required to apply for registration and subject themselves to review by regulatory authorities. MOF in conjunction with CSRC will act as the Mainland review authorities for approving Mainland audit firms intending to provide audit and related services to companies incorporated in the Mainland and listed in Hong Kong. The review authority for approving Hong Kong audit firms intending to provide similar services to companies incorporated or registered in Hong Kong and listed in the Mainland will be HKICPA.
- (f) The SFC will exercise its waiver power to allow “approved” Mainland audit firms to act as reporting accountants under paragraph 43 of the Third Schedule to the Companies Ordinance.
- (g) The Exchange will maintain a public register of “approved” Mainland audit firms that may service Mainland incorporated companies listed in Hong Kong. The register of all licensed or approved Hong Kong audit firms is currently, and will continue to be, maintained by HKICPA.
- (h) Mainland audit firms that provide services to Hong Kong listed issuers will be subject to monitoring and oversight.
- (i) The current relevant disciplinary authorities will continue to be responsible for any disciplinary proceedings against auditors in their jurisdictions; HKICPA in the case of Hong Kong audit firms, and MOF and CSRC in the case of Mainland audit firms.
- (j) Listed issuers incorporated in the Mainland, as is the case for any company listed in Hong Kong wherever incorporated, will continue to be subject to enquiries by FRC.

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### **Consultation questions**

13. We welcome interested parties to submit their comments on the proposed framework concerning acceptance of CASBE, Mainland auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong.

*Question 1* Do you agree with the proposed framework? Please state the reasons for your views.

*Question 2* If the proposed framework is adopted, do you agree that the effective commencement date for the new rules should be **1 January 2010** and should apply to annual accounting periods beginning on or after **1 January 2010**? Please state the reasons for your views.

*Question 3* What are your views on the likely effect of the proposed new Rules to implement the framework (see **Appendix 6**)? Please provide qualitative and quantitative data. Please state the reasons for your views.

*Question 4* Do you have any other comments or suggestions or alternative approaches? Please state the reasons for your views.

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## CHAPTER 2

### PROPOSED ACCEPTANCE OF MAINLAND ACCOUNTING AND AUDITING STANDARDS FOR LISTING PURPOSES

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14. This chapter sets out the proposal which would allow the use of Mainland CASBE by Mainland incorporated companies listed in Hong Kong rather than under IFRS or HKFRS which is currently required.
15. This chapter also sets out the proposal which would also allow the use of Mainland auditing standards for audit and related service work conducted for Mainland incorporated companies listed in Hong Kong.

#### **Current rules on accounting standards for issuers incorporated in the Mainland**

16. The underlying purpose of the Rules is to ensure that the accounting standards used in the preparation of financial statements of listed issuers are familiar to Hong Kong investors to enable them to make informed investment decisions.
17. The current Rules on the accounting standards that may be adopted by Mainland incorporated companies are summarised at **Appendix 2**. There are rules for annual financial statements and there are separate and slightly different rules for accountants' reports on financial information included in prospectuses and transaction circulars. These are discussed below.

#### **Main Board issuers**

##### *(a) Annual reports*

18. Under Note 2.1 of paragraph 2 of Appendix 16 to the Rules the annual financial statements of Main Board issuers must conform with either:-
  - (i) HKFRS; or
  - (ii) IFRS, together with an explanation of differences between IFRS and HKFRS and a statement of the financial effect of material differences.
19. When the Main Board rules were developed Hong Kong accounting standards were different from IFRS. However, as HKFRS have fully converged with IFRS since 1 January 2005, there will normally be no differences from HKFRS if IFRS is adopted.
20. Listed issuers and new applicants incorporated in the Mainland, which adopt IFRS, are not subject to the requirements to include an explanation of differences between IFRS and HKFRS and their financial effect.
21. The annual report of a Mainland incorporated issuer may also present in a separate part financial information conforming with applicable Mainland accounting rules and regulations so long as the financial statements contain a statement of the financial effect of the material differences (if any) from either HKFRS or IFRS.

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22. The principal requirement therefore is that either HKFRS or IFRS financial statements must be prepared, which may be supplemented by additional financial statements prepared under CASBE. This is a common practice adopted by “A+H” share companies because their listing on a Mainland exchange requires them to produce financial statements in compliance with CASBE. As set out in **Appendix 5**, as at 31 December 2008, the accounting standards adopted by Main Board issuers incorporated in the Mainland were as follows:-

	HKFRS	IFRS	Total
H-share only	32	21	53
A+H share	26	31	57
	<u>58</u>	<u>52</u>	<u>110</u>

(b) *Accountants’ reports*

23. Under Main Board Rule 19A.10, the accountants’ report for Main Board issuers must “*normally*” be prepared in accordance with the accounting standards set out in Main Board rules 4.11 to 4.13 which in substance are the same as those required for annual financial statements. The inclusion of the word “*normally*” in Main Board Rule 19A.10 provides some flexibility not provided for in the rules for annual financial statements and effectively allows accounting standards other than HKFRS and IFRS to be used. Although the Rules do not indicate which alternative accounting standards would be permitted some guidance is provided in Listing Decision HKEx-LD38-2 which can be found at <http://www.hkex.com.hk/listing/listdec/200407-2.doc>.
24. These rules deal with primary listings on the Exchange. There are no specific rules on the requirements applicable to secondary listings for Mainland incorporated companies but issuers would normally be expected to follow the same requirements as those applicable to other companies incorporated outside Hong Kong. Currently, there are no secondary listings of Mainland incorporated companies.

GEM issuers

25. Chapter 25 of the GEM rules deals with listed issuers incorporated on the Mainland and GEM Rule 25.01(3) states that the general GEM rules apply subject to modifications referred to in that chapter.
26. Under GEM Rule 25.02 where a Mainland issuer is, or is to be, listed on another stock exchange, the provisions of the GEM rules, unless otherwise stated, apply in their entirety save for any specific modifications provided in the GEM rules. The effect is that rules set out below will apply to Mainland incorporated issuers.

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(a) *Annual reports*

27. Under GEM Rule 18.04 the annual financial statements are required to conform with either:-  
(i) HKFRS or  
(ii) IFRS.
28. The GEM rule differs from the Main Board requirements in that where IFRS is adopted there is no reference to the need to include an explanation of differences between IFRS and HKFRS and a statement of the financial effect of material differences.
29. Under GEM Rule 18.05 a listed issuer, which is also listed on the New York Stock Exchange or the Nasdaq National Market of the United States of America, and has adopted Generally Accepted Accounting Principles in the United States of America (“US GAAP”) for the purposes of reporting to US shareholders, may prepare annual financial statements drawn up in conformity with US GAAP. A listed issuer which is subsequently no longer listed on the US exchanges is required to revert to either HKFRS or IFRS. However, a listed issuer whose principal activity is property development and/or investment may not adopt US GAAP for financial reporting purposes.
30. GEM Rule 18.06 provides that where the Exchange, in exceptional circumstances, allows the annual financial statements of any overseas issuer to be drawn up otherwise than in conformity with either HKFRS, IFRS or US GAAP, the Exchange will normally require the annual financial statements to contain a statement of the financial effect of the material differences (if any) and a summary of any material differences in disclosure (if any) from either HKFRS or IFRS.
31. The GEM rules therefore prefer HKFRS or IFRS to be adopted. In special circumstances the adoption US GAAP and other accounting standards are possible. As set out in **Appendix 5** as at 31 December 2008 of the 40 Mainland incorporated companies listed on GEM, 32 adopted HKFRS and the remainder elected to adopt IFRS. No other accounting standards were adopted.

(b) *Accountants’ report*

32. Under GEM Rule 7.12, the accountants’ report for GEM issuers must “*normally*” be drawn up in conformity with:-  
(i) HKFRS or  
(ii) IFRS.
33. Rules similar to those applicable to annual financial statements to allow the use of US GAAP or other accounting standards are provided in GEM Rules 7.13 to 7.15
34. The inclusion of the word “*normally*” in GEM Rule 7.12 again provides some flexibility in the accounting standards that may be adopted. Although the rule does not indicate which other accounting standards would be allowed, the guidance mentioned in paragraph 23 above is available.

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## **Proposal for acceptance of CASBE**

35. We propose to amend the rules to explicitly allow CASBE. We consider that it is now appropriate to amend the Rules. When the existing Rules were introduced, Mainland accounting standards were substantially different from HKFRS and IFRS. However, in February 2006, MOF announced the implementation of new Mainland accounting standards that brought substantial convergence between Mainland accounting standards and IFRS. With effect from 1 January 2007, all companies incorporated and listed on the Mainland stock exchanges must apply the new Mainland accounting standards. Moreover, on 6 December 2007, the China Accounting Standards Committee and the HKICPA signed a joint declaration on the convergence of CASBE with HKFRS. The two parties declared their commitment to maintain the convergence of CASBE with HKFRS and therefore in substance convergence with IFRS as HKFRS are converged with IFRS on an ongoing basis. A copy of the declaration can be obtained at [http://www.hkicpa.org.hk/professionaltechnical/mainland\\_standards\\_convergence/accounting/JD\\_e.pdf](http://www.hkicpa.org.hk/professionaltechnical/mainland_standards_convergence/accounting/JD_e.pdf)
36. A decision to converge with IFRS is part of a strategy of Hong Kong and the Mainland to ensure consistency and comparability of financial reporting and to provide a wider access to capital across global financial markets.
37. An increasing number of jurisdictions have adopted or are converging their national accounting standards to IFRS. HKFRS became fully converged with IFRS as from 1 January 2005. A table comparing IFRS with HKFRS together with any differences is available on the HKICPA website at <http://www.hkicpa.org.hk/professionaltechnical/accounting/rm/2008/ComparisonTable122008.pdf>. At **Appendix 3** is a summary comparing the accounting standards accepted by stock exchanges in other major jurisdictions.
38. The proposed amendments to the Rules are at **Appendix 6**. Matters to note include:-
- (a) **Reconciliations**

Where a national accounting standard has not converged with IFRS and it has been accepted by the Exchange, reconciliations between the accounting standards and IFRS or HKFRS will continue to apply.

Given the convergence of HKFRS with IFRS, the requirement for reconciliations between IFRS and HKFRS will no longer be necessary. Similarly, given the convergence of CASBE with HKFRS the current requirement under Note 2.3 to paragraph 2(6) of Appendix 16 of the Main Board rules for a reconciliation of CASBE to HKFRS or IFRS will no longer be necessary.

Currently, the reconciliations between IFRS and Mainland CASBE financial statements for “A+H” share companies show some differences and the major difference is the accounting for the injection of assets into a listing vehicle at the time of an initial public offering. However, we understand that MOF is working with the IASB and the relevant listed issuers to remove all significant differences in the application of the standards by accounting years ending on 31 December 2009. Accordingly, all significant differences are expected to be removed by the time the proposed new rules come into effect.

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(b) Five-year historical summary

Appendix 16(19) of the Main Board rules requires listed issuers to provide a five-year historical summary of financial data. The Main Board Rule states that:-

*“A listed issuer shall include a summary, in the form of a comparative table, of the published results and of the assets and liabilities of the group for the last five financial years. Where the published results and statement of assets and liabilities have not been prepared on a consistent basis this must be explained in the summary.”*

GEM Rule 18.33 has a similar requirement. An issuer that adopts CASBE should therefore normally present the five-year financial data prepared under CASBE. We recognise that Hong Kong issuers that will be adopting CASBE may not have available financial data based on CASBE for five years as CASBE was only introduced with effect from 1 January 2007. Accordingly, if the company is an existing listed issuer and has a history dating before 1 January 2007, the issuer is expected to explain the reasons and show financial information of the earlier years under IFRS/HKFRS as these would have been prepared under the existing Rules.

(c) Transaction circulars

If the proposed amendments are adopted, an issuer that elects to adopt CASBE for annual financial reporting purposes would also prepare financial information included in transaction circulars under CASBE.

**Current rules on auditing standards for issuers incorporated in the Mainland**

39. The underlying purpose of the Rules is to ensure that investors are provided with sufficient comfort on the reliability of the financial information presented by listed issuers through the issue of an audit or assurance opinion on the information by a firm of independent accountants who are required to perform their work in accordance with auditing standards.

Main Board issuers

(a) *Annual reports*

40. The current Main Board Rule 19A.32 states that where the annual financial statements of a listed issuer are required to be audited for Mainland incorporated companies, they must be audited to a standard “*comparable*” to that required by:-
- (i) HKICPA, that is, auditing standards issued by HKICPA; or
  - (ii) by IAASB of IFAC, that is, International Standards on Auditing.

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(b) *Accountants' reports*

41. In the case of accountants' reports Main Board Rule 19A.09 requires that the financial information should have been audited to a standard "*comparable*" to that required in Hong Kong. Although there is no additional reference to compliance with International Standards on Auditing as in the case for annual financial statements, given that the HKICPA auditing standards are converged with International Standards on Auditing, the requirements in substance are the same.

GEM issuers

(a) *Annual reports*

42. The current GEM Rule 25.26 requires annual financial statements to be audited under auditing standards "*comparable*" to those issued by HKICPA or IAASB.

(b) *Accountants' reports*

43. GEM Rule 25.01(3) indicates that the general GEM rules apply. Therefore GEM Rule 7.08(3) is relevant; it requires that the accountants' report must state that it has been prepared in accordance with Auditing Guideline – "Prospectuses and the reporting accountant" (Statement 3.340) issued by HKICPA. In substance this means that HKICPA auditing standards are expected to be adopted as the guideline makes references to them.

**Proposal for acceptance of Mainland auditing standards**

44. As previously mentioned above, on 6 December 2007, the China Auditing Standards Board and the HKICPA jointly announced the convergence of China auditing standards with Hong Kong Standards on Auditing. The announcement declared that auditing standards of both sides comply with the same requirements and the resulting conclusions should have the same effect for the same assurance or other related services engagements. The two sides also declared their commitment to maintain convergence of their auditing standards on an on-going basis. A copy of the declaration can be obtained at [http://www.hkicpa.org.hk/professionaltechnical/mainland\\_standards\\_convergence/auditing/JD\\_e.pdf](http://www.hkicpa.org.hk/professionaltechnical/mainland_standards_convergence/auditing/JD_e.pdf)
45. As HKICPA's policy is to adopt International Standards on Auditing, the joint declaration means in substance the convergence of Mainland auditing standards with International Standards on Auditing issued by IAASB.
46. In light of the above, we take the view that audit and assurance reports prepared under Mainland auditing standards should be acceptable for Hong Kong listed issuers. In substance Mainland auditing standards fall within the requirements of the current Rules in that Mainland auditing standards are "*comparable*" to HKICPA or International Standards on Auditing. However, an amendment will be made to the current rules to make it clear that Mainland auditing standards are acceptable. The proposed amendments to the Listing Rules are included at **Appendix 6**.



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### **Commencement date**

47. If the proposals are adopted, we suggest the commencement date for the new rules should be effective from **1 January 2010** and should apply to annual accounting periods beginning on or after **1 January 2010**. The changes to the rules will provide Mainland incorporated issuers with greater choice. Issuers will have the flexibility to decide whether they wish to adopt CASBE and when to do so. If an issuer decides to adopt CASBE, the change would be regarded as price sensitive information and the issuer is expected to issue an announcement including the financial effect of the change, if any, on its immediately preceding published financial statements.

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**CHAPTER 3**  
**PROPOSED FRAMEWORK FOR ACCEPTANCE OF MAINLAND**  
**AUDIT FIRMS FOR SERVICING MAINLAND INCORPORATED**  
**COMPANIES LISTED IN HONG KONG**

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**Background**

48. The Hong Kong regulators believe that a possible key concern for investors is the quality of audits performed by Mainland audit firms as they are unfamiliar with the regulations governing those firms and whether they would be equivalent to those governing Hong Kong audit firms. Accordingly, in this chapter we set out the proposed framework for the acceptance of Mainland audit firms that wish to act as auditors or reporting accountants for Hong Kong listed issuers.
49. The majority of the companies listed on the Exchange are incorporated outside Hong Kong and the details as at 31 December 2008 are included in Table 1 below.

**Table 1 – Companies listed on the Exchange – 31 December 2008**

Place of incorporation	Main Board	GEM	Total	%	Percentage of total market capitalisation as at 31 Dec 2008
“A+H” share companies	57	0	57		
“H” share only	<u>53</u>	<u>40</u>	<u>93</u>		
Total Mainland companies:	<b>110</b>	<b>40</b>	<b>150</b>	<b>11.9</b>	<b>27%</b>
Hong Kong	203	4	207	16.4	} 73%
Cayman Islands	345	106	451	35.8	
Bermuda	425	24	449	35.6	
UK	2	0	2	} 0.3	}
Canada } Others	1	0	1		
Australia }	1	0	1		
Total:	1087	174	1261	100%	100%

50. The current regulations governing auditors and the current listing requirements relating to auditors and reporting accountants that service Hong Kong listed issuers are set out at **Appendix 4**. Currently there are no Hong Kong statutory rules governing the regulation of overseas audit firms that service Hong Kong listed companies. It would be a reasonable step to amend the Listing Rules to enable Mainland audit firms to undertake audit and related work for Hong Kong listed issuers taking into account the relevant factors such as reciprocity for Hong Kong auditors and protection for Hong Kong investors through entering into co-operative arrangements on the regulation of auditors between relevant Hong Kong and Mainland regulatory authorities.

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51. The Hong Kong regulators believe that it is appropriate to accept Mainland audit firms. Acceptance of overseas audit firms is consistent with international best practice (see **Appendix 3**). It is also consistent with the past practice of the Exchange which has accepted non-Hong Kong audit firms on a case-by-case basis, guidance on which is included in Listing Decision HKEx-LD70-1. Below we explain the proposed framework on the regulation of Mainland audit firms and seek comments on the proposed regulatory approach.

### **Outline of the proposed framework**

52. The Hong Kong regulators acknowledge that with multiple listings by companies in several markets, a number of audit firms will inevitably be subject to regulation in more than one jurisdiction. We are aware of the need for Hong Kong to set requirements and make arrangements that minimise duplicative or overlapping requirements.
53. With the convergence of PRC accounting and auditing standards and quality control systems over audit firms with those in Hong Kong, we propose to recognise the work performed by Mainland regulatory bodies and we will put in place additional cross-border cooperation mechanisms to ensure there is regulatory “*equivalence*” to that available in Hong Kong. These mechanisms will ensure that the systems in totality are on par to those in Hong Kong to protect Hong Kong investors.
54. The underlying principle of the proposed framework is that Mainland audit firms of companies listed in the Hong Kong should be subject to a level of regulation equivalent to that in Hong Kong. The regulatory mechanism over auditors in the home country of the audit firm, namely, the Mainland, is the key consideration.
55. In summary, the framework governing Mainland auditors comprises the following general principles or elements:-
- reliance and co-operation with existing Mainland regulatory authorities that regulate Mainland audit firms;
  - approval and registration of the audit firms that will be eligible to service companies listed in Hong Kong;
  - monitoring and continuing oversight of the quality of the work of the approved audit firms;
  - arrangements for investigation and sanctions against approved audit firms;
  - the approved audit firm’s familiarity with the Hong Kong listing rules, the Hong Kong Companies Ordinance, the Financial Reporting Council Ordinance and Hong Kong local practices as required by Mainland audit firm professional standards.
56. These principles and elements and how the framework will operate in practice are further discussed in paragraphs 61 to 83 below.

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57. To implement the framework, we propose to amend and expand the relevant rules governing acceptable auditors to include:-

*“a firm of practising accountants which has been approved by the Ministry of Finance and the China Securities Regulatory Commission as being suitable to act as an auditor or reporting accountant for a Mainland incorporated company listed in Hong Kong.”*

58. We also propose to amend the rules to widen the eligibility criteria for reporting accountants, by adding the word “normally” prior to the phrase “must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance” and adding a rule similar to paragraph 57 above to indicate that Mainland audit firms approved by MOF and CSRC are also accepted.
59. These rule changes will provide flexibility to cater for the acceptance of audit firms from the Mainland where we believe the regulatory mechanisms are equivalent to those in Hong Kong.
60. These proposed changes will be a further step in the Exchange’s efforts to assist Mainland companies in raising capital and to reduce the cost of listing in Hong Kong. The proposed revised rules are set out in **Appendix 6**.

#### Reliance on existing regulatory authorities

61. Rather than set up a separate regulatory body, the proposed regulatory framework will make use of the existing regulatory bodies in Hong Kong and on the Mainland.
62. It is accepted that the regulation of non-Hong Kong audit firms could be achieved by applying the same registration and regulatory requirements as under the Companies Ordinance and the Professional Accountants Ordinance. However, this could prove disproportionately burdensome to listed issuers and the audit firms concerned.
63. As mentioned in Chapter 2, there is available information regarding the equivalence of accounting and auditing standards adopted in the Mainland and in Hong Kong and these are regarded as reliable. However, there was no available information concerning the equivalence on the practice review quality control systems and the monitoring and continuing oversight of audit firms in the Mainland. Accordingly the HKICPA has, on behalf of the Exchange, reviewed materials and held discussions with relevant Mainland authorities on the Mainland auditor monitoring system. Using the Hong Kong practice review system as the benchmark, the HKICPA will report to the Exchange on similarities between the two systems. The Exchange is supportive of the development of a framework which will allow acceptance of financial statements of Mainland incorporated companies listed in Hong Kong prepared under Mainland accounting standards and audited by Mainland audit firms and is encouraged by efforts to reduce the regulatory costs of issuers and at the same time improve the attractiveness of Hong Kong as a capital market.

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## Approval and registration of Mainland audit firms

64. Mainland audit firms intending to service Mainland incorporated companies listed in Hong Kong as either a reporting accountant or as an auditor must meet qualification requirements as agreed between the Hong Kong and Mainland regulators. The principal requirements are set out in paragraph 6 of the Framework at (see **Appendix 1**) and under paragraph 7 of the Framework the Mainland regulators may add to them. On approval of a Mainland audit firm by the vetting authorities the Exchange shall register the firm in its list of recognised Mainland audit firms.
65. The effect of the proposed framework is that a Mainland audit firm which wishes to act as an auditor or a reporting accountant for a Hong Kong listed issuer must be separately approved and registered by MOF and CSRC. Once MOF and CSRC approve a Mainland audit firm to be able to undertake such work, the Hong Kong regulators will be notified and the Exchange will maintain a list of the Mainland audit firms approved by MOF and CSRC on its web-site.
66. An issue considered by the Hong Kong regulators in developing the proposed framework was whether the Exchange should have the right to reject a Mainland audit firm. It was decided that this would be inappropriate as the Exchange already possesses the power to pre-vet listed companies' / listing applicants' documents prior to their release and has the power to reject documents. Currently HKICPA is the auditor licensing body in Hong Kong and the Exchange has no right to terminate the licence or discipline an audit firm approved by HKICPA.
67. Where the Exchange pre-vets documents prior to their release (e.g. prospectuses and transaction circulars), the Exchange raises comments on the documents including the reporting accountants' reports and the documents are required to be modified before they are released to the public. The powers to reject documents are set out in Main Board Listing Rules 9.07 and 13.52 (GEM Listing Rules 12.15 and 17.53) under which documents must not be issued by a listed company until the Exchange has confirmed that it has no further comments thereon. In particular cases, the Exchange may refuse to accept documents that were not properly prepared.
68. Where the Exchange post-vets documents (e.g. interim and annual reports and announcements), it can require supplementary announcements to be issued and can make a complaint in the first instance to the FRC or the HKICPA to take appropriate action. Under the proposed framework complaints concerning suspected misconduct or non-compliance by a Mainland auditor of a Hong Kong issuer may be referred by the FRC to MOF and CSRC for their assistance.
69. The memorandum of understanding between the Exchange and the HKCIPA dated 19 February 2004 recognises that accountants are subject to duties imposed by law and by their own professional body and therefore it is generally inappropriate for the Exchange to seek to regulate accountants or to make any finding or take any disciplinary action against an accountant.

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70. The reporting accountants/auditors are expected to follow professional standards and to be aware of the relevant laws and regulations of the jurisdictions in which the issuer operates. This applies to all audit firms, whether Hong Kong or Mainland audit firms that provide audit and related services. From the Exchange’s perspective the issuer’s accountants are expected to be familiar with the requirements of the following to be competent in carrying out their roles for a listed issuer:-
- the Hong Kong Listing Rules
  - the relevant provisions of the Companies Ordinance
  - the FRC Ordinance
  - and any relevant local Hong Kong practices concerning listed companies.
71. The Hong Kong standards include Hong Kong Standards on Quality Control (“HKSQC1”) “Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements”. The Mainland equivalent is China Standards on Quality Control (“CSQC5101”). Under the standards, a key requirement is that an audit firm should only undertake or continue service engagements where the firm is competent to perform the engagement and has the capability, time and resources to do so. In meeting this requirement the firm must consider whether its personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively. It is therefore a professional responsibility of a Mainland audit firm to determine whether it complies with CSQC5101 before it accepts a Hong Kong engagement.
72. The MOF and CSRC, in its vetting approval process of Mainland audit firms and in its oversight of such firms through practice reviews and other procedures, will assess and monitor continued compliance with CSQC5101 and other Mainland auditing standards.

De-registration of Mainland audit firms eligible to service Mainland incorporated companies listed in Hong Kong

73. Where it comes to the notice of MOF and CSRC that a Mainland audit firm ceases to meet the qualification requirements for registration or fails to take appropriate steps to rectify the position, MOF and CSRC will remove the Mainland audit firm from the approved list and by doing so the audit firm would not be eligible to act as an auditor or provide assurance type work to a Hong Kong listed issuer. The relevant Hong Kong regulators will be advised by MOF and CSRC of withdrawals of the approval status and the Exchange will remove the firm from the approved list. Examples of circumstances that may result in deregistration include:-
- failure to provide accurate information;
  - failure to provide updated information in a timely manner;
  - failure to participate or co-operate in monitoring or investigation arrangements;
  - the audit firm no longer meets the qualification criteria to service Mainland incorporated companies listed in Hong Kong; and
  - the audit firm has been barred from conducting audits of listed entities in the Mainland or other countries.

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74. Where MOF and CSRC consider that there are grounds for removing a Mainland audit firm from its approved list, they will notify the audit firm that there are grounds and, where appropriate, set out the steps the audit firm needs to take to retain its approved status. The firm will be given reasonable time to respond, as determined by MOF and CSRC who would then make a final decision on whether there should be a withdrawal of its approved status and de-registration. A decision of MOF and CSRC will be final but the audit firm may re-apply for re-registration after a lapse of time as determined by MOF and CSRC.

#### Monitoring and continuing oversight of Mainland audit firms

75. Under the proposed framework, continuing oversight of approved Mainland audit firms eligible to provide services to Hong Kong listed companies will be the responsibility of MOF and CSRC.
76. Those firms will be subject to monitoring through practice review inspections by on-site visits and reviews of audit working papers and other files by MOF and CSRC usually on a cyclical basis, which is similar to the current practice adopted by the HKICPA in reviewing Hong Kong audit firms which service listed companies.
77. In carrying out their monitoring function, MOF and CSRC will require the Mainland audit firms to complete an annual return to ensure that they have updated information relevant to the firm's registration and compliance with any undertakings, if any, it gave on registration.
78. As a general rule Hong Kong regulators will not request practice review inspections of Mainland audit firms as these would be conducted on a regular basis by MOF and CSRC.

#### Investigations and Sanctions

79. Mainland audit firms approved by MOF and CSRC will be required to respond in a timely manner to any enquiries from MOF and CSRC and will be subject to appropriate sanctions as determined by MOF and CSRC.
80. If the Hong Kong regulators have information on possible audit firm misconduct or have reasonable suspicion to believe that a Mainland audit firm should not be an approved audit firm, the FRC may seek assistance from MOF and CSRC to investigate the matters, and advise the Hong Kong regulators of the outcome. MOF and CSRC may also initiate enquiries. To facilitate such enquiries, under Mainland CQCS5101, audit firms are required to retain their working papers for at least 10 years from the date of the auditors' report. This is more stringent than the requirement in Hong Kong which requires working papers to be kept for a minimum of 5 years.

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81. As is the case for all audit firms servicing Hong Kong listed companies, Mainland audit firms that service Hong Kong listed companies will also be subject to the provisions of the FRC Ordinance. The FRC will establish co-operation arrangements with MOF and CSRC on investigations and enquiries within the scope of the FRC's remit as set out in the FRC Ordinance. Enquiries into the conduct of Mainland audit firms are also subject to Mainland law. In practice, formal investigations of Mainland audit firms will be carried out by MOF and CSRC either acting on a direct complaint or on behalf of the FRC to the extent permitted by Mainland laws. The Mainland audit firm will be required to provide documents to MOF and CSRC to enable MOF and CSRC to carry out and finalize their enquiries. Similar arrangements apply to past auditors.
82. As neither the FRC nor the HKICPA has statutory power to impose penalties or fines on Mainland audit firms, the responsibility for taking appropriate disciplinary action and sanctions against Mainland audit firms will rest with MOF and CSRC.

### **Commencement date**

83. If the proposals are adopted, we suggest the commencement date for the new rules for acceptance of Mainland audit firms should be **1 January 2010**. Similar to our proposals on acceptance of Mainland accounting standards, issuers will have the flexibility to decide whether they wish to engage a Mainland audit firm or continue being serviced by a Hong Kong audit firm. Under Main Board Rule 13.51(4) (GEM Rule 17.50(4)), a change in audit firms is required to be announced and notified to the Exchange immediately a decision is made.



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## CHAPTER 4

### IMPACT OF THE PROPOSED FRAMEWORK

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84. A discussion of the possible benefits and costs of the proposals which have been identified is set out below. The Hong Kong regulators believe it is important that interested parties also provide views on the expected impact or likely effect of the proposed framework on Hong Kong's development as an international financial centre and promoting market quality.

#### **Expected benefits and costs of the proposed amendments on accounting and auditing requirements**

85. With the acceptance of CASBE, the cost of producing financial information under the separate standards is eliminated and as a result information can be released to the market more quickly. Hong Kong investors will benefit as they will be in a better position to make more timely investment decisions.
86. The amendments to the Rules, if adopted, would provide eligible issuers with an option to use CASBE in preparing financial statements to meet Hong Kong listing requirements. As at 31 December 2008, there were 150 issuers incorporated in the Mainland of which 57 are also listed in the Mainland as "A" share companies. These 150 companies accounted for approximately 27% of the total Hong Kong market capitalisation as at 31 December 2008. These companies also accounted for 49% of the turnover of the Exchange for 2008.
87. A transition from one set of accounting standards to another, including changing the controls and systems relating to the production of financial statements, would normally involve costs. However, as Mainland incorporated companies and in particular those dually listed in Hong Kong and on the Mainland have applied CASBE since 1 January 2007 for the purpose of their Mainland listings, minimal additional costs, if any, are expected on acceptance by the Exchange of CASBE. Rather, compliance costs for these listed issuers are expected to be substantially reduced as they will no longer be required to prepare separate IFRS or HKFRS financial statements. In addition, the costs of the audit and printing of the IFRS or HKFRS financial statements would be saved. The primary beneficiaries of adopting our proposals will therefore be the 57 "A+H" share issuers and their investors.
88. Mainland incorporated companies which are solely listed in Hong Kong (that is, an "H" share company) may choose to continue to follow HKFRS or IFRS rather than move to CASBE. As shown in **Appendix 5** as at 31 December 2008 there were 93 such companies and they will need to decide which accounting standards they wish to adopt.
89. Adopting a different accounting framework from that adopted in the past may in some cases represent a change in an accounting policy for a listed issuer and care needs to be taken before a decision to change is made.

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90. For companies electing to change to CASBE, there will be costs incurred in assessing the impact. The possible benefits and costs arising from a change will vary from company to company and will depend on factors such as whether the company is listed solely in Hong Kong or listed both in Hong Kong and the Mainland, the complexity of the organisation, the nature of its current accounting procedures and the approach it takes in meeting the current listing rule requirements.
91. Preparing financial statements currently under both CASBE and IFRS/HKFRS could be accomplished in a number of ways, including maintaining separate systems for financial reporting under both IFRS/HKFRS and CASBE or maintaining systems under one set of accounting standards and making adjustments to determine the appropriate amounts and information under the other set of accounting standards. Allowing CASBE should remove some accounting costs. Investors and other stakeholders will ultimately benefit from the cost savings.
92. Mainland incorporated companies that have adopted IFRS may be able to benefit from the change in the Rules and may be able to claim dual compliance with both IFRS and CASBE in their financial statements.
93. We believe that the concerns are not insurmountable and would diminish with time as interested parties become accustomed to the new regime. We do not expect any loss or gain of information on the adoption of CASBE as CASBE are in substance converged with IFRS. If CASBE is adopted, financial information and statements will be required to be made available to investors both in English and in Chinese which is the current requirement under the Rules. The choice of language is up to each investor to decide. The relevant rules concerning the language in which documents are presented are:-

	<u>Main Board</u>	<u>GEM</u>
Listing documents	11.14	14.25
Annual reports	13.46(1) Note 1	18.03 Note 2
Transaction circulars	14.87	19.87

#### **Expected benefits and costs on acceptance of Mainland audit firms**

94. Many Mainland incorporated listed companies have significant operations in the Mainland. For an audit to be efficient and cost effective, the audit firm should have sufficient presence and capability in the country of operation and accordingly from a practical perspective it is sensible to consider the acceptance of Mainland audit firms. As set out in **Appendix 3** some exchanges in other jurisdictions allow the use of foreign audit firms so long as they are registered with an oversight body.
95. The purpose of introducing the proposed framework is to expand the choice of audit firms to Hong Kong listed Mainland companies and at the same time provide a level of comfort on the quality of work performed by Mainland audit firms and to ensure that appropriate monitoring and sanctions mechanisms are in place to protect investors of Mainland incorporated companies listed in Hong Kong. The framework attempts to reduce the underlying regulatory costs but at the same time improve the attractiveness of Hong Kong as a capital market for listing Mainland incorporated companies. The proposals seek to take advantage of the work of Mainland regulators which is equivalent to the requirements in Hong Kong.

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96. Quantifying the benefits arising from this regulatory change is difficult. However, Mainland incorporated companies form a significant percentage of companies listed in Hong Kong in terms of both numbers and market capitalisation. They are expected to save accounting and audit fees and printing costs which, for “A+H” share companies, are currently duplicated as there is a need to prepare financial statements in accordance with Mainland accounting standards for Mainland listing purposes and a separate set of financial statements under HKFRS or IFRS for Hong Kong listing purposes. Investors will also ultimately benefit from these reduced costs.
  97. The framework will provide effective regulation of Mainland audit firms through reliance on the regulators in the Mainland who have the local authority to efficiently and effectively regulate Mainland auditors. Co-operation agreements and memoranda of understanding between relevant Mainland and Hong Kong regulators will enable the sharing of information to the extent permitted by the applicable laws in Hong Kong and the Mainland.
  98. The principal costs for MOF and CSRC, and the HKICPA relate to processing and, where appropriate, approving applications of audit firms in their jurisdictions and exercising ongoing oversight mechanisms.
  99. In addition to the one-off cost of funding the HKICPA to assess the equivalence of the practice review systems, the cost to the Exchange will be the maintenance of a register of approved Mainland audit firms on its website. The further costs to Hong Kong regulators will depend on whether there is a complaint raised concerning a Mainland audit firm that results in making a referral to the FRC, and MOF and CSRC. The costs to Hong Kong regulators will primarily be incurred in liaison and co-operation with their counterpart regulators in the Mainland on case-specific matters.
  100. There will be costs for Mainland audit firms in preparing an application for registration and in responding to new regulatory requirements. Likewise there will be costs for Hong Kong firms intending to service companies incorporated or registered in Hong Kong and listed in the Mainland.
  101. Hong Kong audit firms which currently service Mainland incorporated issuers will be affected as the supply of eligible audit firms that may service Hong Kong listed issuers would be increased with the acceptance of Mainland audit firms. However, the proposed changes do not preclude a Hong Kong audit firm from continuing to provide services to a Mainland incorporated company listed in Hong Kong. The choice of audit firm will depend on market forces and is a commercial matter to be decided between the listed issuer and the audit firm. The ability of Hong Kong audit firms to service companies incorporated or registered in Hong Kong and listed in the Mainland will provide them with possible business opportunities in the Mainland.

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102. In summary, the benefits of the proposed framework are expected to outweigh the costs of implementing it. The time and cost of producing financial information by the relevant listed companies will be reduced and as a result financial information will be released to the market more quickly. Hong Kong investors will benefit as they will be in a better position to make more timely investment decisions. The accelerated flow of information in turn will assist in promoting a quality market and the development of Hong Kong as an international financial centre which will benefit all Hong Kong residents.

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## CHAPTER 5

### CONSULTATION QUESTIONS

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103. We welcome interested parties to submit their comments on the proposed framework concerning acceptance of CASBE, Mainland auditing standards and Mainland audit firms for Mainland incorporated companies listed in Hong Kong.

*Question 1* Do you agree with the proposed framework? Please state the reasons for your views.

*Question 2* If the proposed framework is adopted, do you agree that the effective commencement date for the new rules should be **1 January 2010** and should apply to annual accounting periods beginning on or after **1 January 2010**? Please state the reasons for your views.

*Question 3* What are your views on the likely effect of the proposed new Rules to implement the framework (see **Appendix 6**)? Please provide qualitative and quantitative data. Please state the reasons for your views.

*Question 4* Do you have any other comments or suggestions or alternative approaches? Please state the reasons for your views.

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## **APPENDIX 1**

### **PROPOSED FRAMEWORK FOR IMPLEMENTATION**

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**Proposed Framework for Implementing the Proposal to give  
Companies from the Mainland and Hong Kong the Choice to prepare  
Financial Statements under the Accounting Standards of  
the Home Jurisdiction and Audited by Auditors in the Home Jurisdiction  
for Listing in the Other Jurisdiction**  
*(20.8.2009)*

#### **A. BASIC CONDITIONS**

1. There shall be on-going convergence of the accounting and auditing standards of the two sides. Before implementing the proposed framework, the standard-setting authorities of the two sides should establish an on-going and effective mechanism under Clause 2 of the Joint Declaration (JD2)<sup>1</sup> to ensure on-going convergence of the said standards.
2. Whilst the two sides operate on the basis of different legislative and regulatory frameworks, their quality assurance (i.e. practice review / on-site inspection) systems shall basically be maintained at a similar level. Before implementing the proposed framework, the relevant authorities of the two sides should liaise and communicate to better understand each other's systems.

#### **B. Scope**

3. The two sides will implement the following new arrangements at the same time –
  - 3.1. Mainland audit firms which have been recognised by the Ministry of Finance (MoF) and the China Securities Regulatory Commission (CSRC)<sup>2</sup> through effective means as having “securities and futures

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<sup>1</sup> On 6 December 2007, two Joint Declarations were signed between the China Accounting Standards Committee and the Hong Kong Institute of Certified Public Accountants (HKICPA) and between the China Auditing Standards Board and the HKICPA, announcing the convergence of the accounting and auditing standards of the two jurisdictions. JD2 states that the signatories are committed to maintaining the convergence of the said standards.

<sup>2</sup> Mainland audit firms with “securities and futures industry qualifications” are eligible to act as auditors of companies listed in the Mainland. At present, there are some 7 000 audit firms in the Mainland, of which about 60 have such qualifications. The MoF and the CSRC are responsible for the accreditation of this qualification.

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industry qualifications” may apply to act as auditors of Mainland companies listed in Hong Kong and audit financial statements prepared under the China Accounting Standards for Business Enterprises (CASBE). This arrangement will be applicable to companies incorporated in the Mainland whose financial statements (including those for Initial Public Offerings (IPOs) and periodic reports) are prepared under the CASBE and audited with the Mainland auditing standards. Mainland companies listed in Hong Kong may also choose to prepare their financial statements under the Hong Kong Financial Reporting Standards (HKFRS) or the International Financial Reporting Standards (IFRS).

- 3.2 Hong Kong audit firms registered with the HKICPA may apply to act as auditors of Hong Kong companies, i.e. companies incorporated or registered under the Companies Ordinance of the HKSAR, listed in the Mainland and audit financial statements prepared under the HKFRS or the IFRS. This arrangement will be applicable to Hong Kong companies whose financial statements (including those for IPOs and periodic reports) are prepared under the HKFRS or the IFRS and audited with Hong Kong or international auditing standards. Hong Kong companies listed in the Mainland may also choose to prepare their financial statements under the CASBE.
- 3.3 The above audit firms from the two sides when providing auditing services to companies listed in the other side should comply with the other side’s listing-related requirements.

## **C. Overview**

### *Application*

4. Applications from audit firms which satisfy the application requirements should be made to the corresponding vetting-cum-nomination authority in their home jurisdiction.
5. The MoF and the CSRC are the vetting-cum-nomination authorities in the Mainland, while the HKICPA is the vetting-cum-nomination authority in Hong Kong.

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*Qualification Requirements for Endorsement*

6. The vetting-cum-nomination authorities of the two sides shall agree on a set of transparent and objective requirements for making an assessment on the applicant audit firms. The qualification requirements to be adopted by the two sides should cover (but not limited to) the following –
  - (a) the respective auditing standards of the two sides;
  - (b) the respective quality control standards and codes of ethics for professional accountants of the two sides; and
  - (c) the experience, resources and capabilities of the audit firms in auditing listed companies.
7. Apart from the qualification requirements agreed by the two sides, where necessary, the vetting-cum-nomination authorities of the two sides may determine their respective specific qualification requirements.
8. The vetting-cum-nomination authorities of the two sides should endorse audit firms on a selective approach and by batches in accordance with the qualification requirements and the principle of reciprocity.

*Practice Review / On-site Inspection*

9. The home jurisdiction vetting-cum-nomination authority should conduct an initial vetting of the audit firms that have submitted applications to assess their compliance with the qualification requirements. Upon completion of the initial vetting, the home jurisdiction vetting-cum-nomination authority may conduct an on-site inspection of the audit firms to further assess whether they meet the relevant requirements. The detailed requirements, procedures and methods of the assessment are to be determined by the vetting-cum-nomination authorities of their respective jurisdiction under this framework.



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### Endorsement of Audit Firms

10. The home jurisdiction vetting-cum-nomination authority should make public its endorsement upon confirmation that the applicant audit firm has met all the qualification requirements and should inform the relevant authorities and the stock exchange of the listing jurisdiction at the same time.
11. The relevant authorities or the stock exchange of the listing jurisdiction should add the endorsed firm to their/its open list of qualified firms for public information.
12. Where necessary, the relevant authorities or stock exchange of the listing jurisdiction may request the vetting-cum-nomination authority of the home jurisdiction to provide relevant information on the endorsed audit firm.
13. For audit firms endorsed after the vetting process, the vetting-cum-nomination authority of the home jurisdiction should require them to submit annual reports for ensuring that they continue to meet the qualification requirements.

### Post-endorsement Regulation / Investigation

- 14.1 The relevant regulatory authorities (including the CSRC, the MoF, and the Securities and Futures Commission of Hong Kong (SFC), the Financial Reporting Council of Hong Kong (FRC), the HKICPA) should regulate/conduct investigation on the audit irregularities of the endorsed audit firms from the other side through the regulatory authorities of the other side.
- 14.2 Where the regulatory authorities of one jurisdiction require the cooperation of the audit firms from the other side to discharge their regulatory functions, they will request the regulatory authorities of the other side to organise investigations and relay the investigation results to them, to ensure that the relevant regulatory authorities effectively discharge their regulatory functions.
- 14.3 The relevant regulatory authorities of the two sides should set up a co-operation mechanism for conducting post-endorsement

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regulation/investigation and should enhance their mutual trust in the post-endorsement regulation/investigation process.

#### Withdrawal of endorsement

15. Where an endorsed audit firm is found by the home jurisdiction vetting-cum-nomination authority through its annual reports, practice review or post endorsement regulation/investigations (including investigations by other regulatory authorities) to be no longer in compliance with the qualification requirements, the vetting-cum-nomination authority of the home jurisdiction should withdraw the endorsement of the audit firm in question.
16. Where the relevant authorities of the listing jurisdiction have determined that an endorsed audit firm has breached the relevant professional standards, the relevant authorities should provide relevant information to the vetting-cum-nomination authority of the home jurisdiction as soon as possible and request the latter to decide whether or not to withdraw the endorsement of the firm in question.
17. If the qualification requirements are raised, the endorsed audit firms should be required to meet the new requirements within a specified timeframe. The vetting-cum-nomination authority of the home jurisdiction will withdraw the endorsement of audit firms which fail to meet the new requirements within the specified timeframe.
18. If the vetting-cum-nomination authority of the home jurisdiction decides to withdraw the endorsement of an audit firm, it shall as soon as possible notify the relevant authorities and the stock exchange of the listing jurisdiction which shall then remove the audit firm concerned from the list of qualified audit firms at the same time.

#### Revisions and Improvements

19. Any amendments to this proposal framework may be made only with the agreement by the MoF, the CSRC and the Financial Services and the Treasury Bureau (FSTB), the FRC, the SFC, the Stock Exchange of Hong Kong Limited (SEHK) and the HKICPA.

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**D. Important Considerations for Implementing the Proposal**

20. The implementation of this proposal should be within the existing legislative framework without the need to amend the legislation of the two sides.
21. The SEHK will conduct market consultation on proposed changes to the Listing Rules for implementing this proposal. The relevant authorities of the Mainland will consult Mainland audit firms with securities and futures industry qualifications.
22. The proposal should be of benefit to both sides. Given that there are no Hong Kong companies listed in the Mainland at present, the two sides should pursue the listing of Hong Kong companies in the Mainland as soon as possible.
23. If in the future the proposed framework conflicts with the above basic conditions or the legislation or regulatory framework of either side, or if there are proposed changes to the legislation or regulatory framework that may lead to such conflicts, the two sides should discuss how to revise the proposed framework as soon as possible. During the interim, the endorsed firms will be allowed to continue to act as auditors of listed companies within timeframe agreed by the two sides.

**E. Implementation Procedures in the Mainland**

24. The MoF and the CSRC will select audit firms through a vetting and nomination process.

**F. Implementation Procedures in Hong Kong**

25. The SEHK will consult the market on necessary amendments to the Listing Rules in accordance with the established procedures so as to expedite the implementation of the proposed framework.
26. The HKICPA will be responsible for the vetting and endorsement of applicant audit firms in Hong Kong.

## APPENDIX 2

# CURRENT RULES REGARDING ACCOUNTING AND AUDITING STANDARDS AND QUALIFICATIONS OF AUDITORS AND REPORTING ACCOUNTANTS

Annual Report			
Auditors' Report			
Accounting standards	Auditing standards	Qualifications of auditors	
<b>A1. Primary listings</b>			
<p>Issuers incorporated in the Mainland</p>	<p><b><u>MBRs 19A.01(3) &amp; 19A.30</u></b>            Indicate that MBR Appendix 16(2) Note 2.1 applies to issuers incorporated in the Mainland, that is, it requires annual accounts to conform with either:            (i) HKFRS or            (ii) IFRS.            If IFRS is adopted, MBR Appendix 16(2) Note 2.3 does not require a statement of the financial effect and explanation of any material differences between IFRS and HKFRS.</p> <p><b><u>GEMRs 25.01(3) &amp; 25.24</u></b>            Indicate that GEMRs 18.04 applies to issuers incorporated in the Mainland (see below).</p> <p><b><u>GEMR 18.04</u></b>            Subject to GEMRs 18.05 and 18.06, requires annual accounts to conform with either:            (i) HKFRS or            (ii) IFRS.</p>	<p><b><u>MBR 19A.32 (GEMR 25.26)</u></b>            Must be audited to a standard comparable to that required by:-</p> <p>(i) HKICPA; or            (ii) International Auditing and Assurance Standards Board of the International Federation of Accountants.</p>	<p><b><u>MBR 19A.31 (GEMR 25.25)</u></b></p> <p>(i) Must be audited by practising accountant of good standing</p> <p>(ii) Independent to the same extent as that required of an auditor under Companies Ordinance and in accordance with the statements on independence issued by the International Federation of Accountants</p> <p>(iii) The firm of accountants must be:</p> <p>(a) qualified under the Professional Accountants Ordinance for appointment of auditors of a company or            (b) acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants or            (c) acceptable to the Exchange which is a joint venture approved or permitted by the China Securities Regulatory Commission or other competent authority in the Mainland to act as an auditor of a listed company in the Mainland and at least one of whose principal joint venture partners is either qualified under (a) or (b) above.</p>

Annual Report		
Auditors' Report		
Accounting standards	Auditing standards	Qualifications of auditors
<p><u>GEMR 18.05</u> An issuer which is also listed on the New York Stock Exchange or Nasdaq National Market and its principal activity does not consist of property development and/or investment may prepare annual accounts drawn up in conformity with US GAAP. When such issuer is no longer so listed, it will be required to revert to either the standards referred to in GEMR 18.04 (see above).</p> <p><u>GEMR 18.06</u> Where the Exchange, in exceptional circumstances, allows annual accounts to be drawn up otherwise than in conformity with the accounting standards set out in rule 18.04 or 18.05 (see above), the Exchange will <i>normally</i> require the annual accounts to contain a statement of the financial effect of the material differences (if any) and a summary of any material differences in disclosure (if any) from either of the standards referred to in rule 18.04 (see above).</p>		

Annual Report			
Auditors' Report			
Accounting standards	Auditing standards	Qualifications of auditors	
<b>A2. Secondary listings</b> are only applicable to Main Board			
<p>Issuers incorporated in the Mainland</p>	<p>No specific rules but requirements applicable to secondary listings of issuers incorporated overseas are expected to be followed by issuers incorporated in the Mainland (see below).</p> <p><u>MBRs 19.29 &amp; 19.46</u> Indicate that MBR Appendix 16(2) Notes 2.1 and 2.4 apply to issuers incorporated overseas, that is, the rules require annual accounts to confirm with:-</p> <p>(i) HKFRS or (ii) IFRS or (iii) US GAAP.</p>	<p>No specific rules but requirements applicable to secondary listings of issuers incorporated overseas are expected to be followed by issuers incorporated in the Mainland (see below).</p> <p><u>MBR 19.48</u> Must be audited to a standard comparable to that required by:-</p> <p>(i) HKICPA; or (ii) International Auditing and Assurance Standards Board of the International Federation of Accountants.</p>	<p>No specific rules but requirements applicable to secondary listings of issuers incorporated overseas are expected to be followed by issuers incorporated in the Mainland (see below).</p> <p><u>MBR 19.47</u></p> <p>(i) Must be audited by practising accountant of good standing (ii) Independent to the same extent as that required of an auditor under Companies Ordinance and in accordance with the statements on independence issued by the International Federation of Accountants (iii) The firm of accountants must be:</p> <p>(a) qualified under the Professional Accountants Ordinance for appointment of auditors of a company or (b) acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants.</p>

**IPO and Transaction Circulars**

**Accountants' Report**

**Accounting standards**

**Auditing standards**

**Qualifications of reporting accountants**

**B1. Primary listings**

<p>Issuers incorporated in the Mainland</p>	<p><b><u>MBR 19A.10</u></b> Indicates that MBR 4.11 applies to issuers incorporated in the Mainland, that is, it requires that an accountants' report must <i>normally</i> be drawn up in conformity with either: (i) HKFRS or (ii) IFRS.  If IFRS is adopted, MBR 19A.10 does not require a statement of the financial effect and explanation of any material differences between IFRS and HKFRS.  <u>Note to MBR19A.10 (GEMR 7.15)</u> States that financial information conforming with applicable Mainland accounting rules and regulations may be presented in a separate part of the report provided that the report contains a statement of the material differences from either of HKFRS or IFRS.  <b><u>GEMR 25.01(3)</u></b> Indicates that GEMRs 7.12 to 7.14 apply to issuers incorporated in the Mainland is required (see below).  <u>GEMR 7.12</u> The accountants' report must <i>normally</i> be drawn up in conformity with:-  (i) HKFRS or (ii) IFRS.</p>	<p><b><u>MBR 19A.09</u></b> Audited to a standard comparable to that required in Hong Kong.  <b><u>GEMR 25.01(3)</u></b> Indicate that GEMR 7.08(3) applies to issuers incorporated in the Mainland (see below).  <u>GEMR 7.08(3)</u> Prepared in accordance with the Auditing Guideline – Prospectuses and the reporting accountant (Statement 3.340) issued by HKICPA.</p>	<p><b><u>MBR 19A.08</u></b> Requires reporting accountants to be qualified and independent as required under MBR4.03 (see below).  <b><u>GEMR 25.01(3)</u></b> Indicates that GEMR 7.02 applies to issuers incorporated in the Mainland (see below).  <u>MBR 4.03 (GEMR 7.02)</u> (i) Qualified under Professional Accountants Ordinance for appointment as auditors of a company  (ii) Independent to the same extent as that required of an auditor under Companies Ordinance and in accordance with the statements on independence issued by HKICPA  (iii) in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, it can be a firm of accountants that has an international name and reputation and be a member of a recognised body of accountants.  <u>Chapter 32 Companies Ordinance – Third Schedule</u> Paragraph 43 states that “Any report by accountants required by Part II [<i>refers to accountants' report in prospectus</i>] shall be made by accountants qualified under the Professional Accountants Ordinance (Cap 50) for appointment as auditors of a company ...”.</p>
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**IPO and Transaction Circulars**

**Accountants' Report**

**Accounting standards**

**Auditing standards**

**Qualifications of reporting accountants**

**GEMR 7.13**

An issuer which is also listed on the New York Stock Exchange or Nasdaq National Market, its accountants report may be drawn up in conformity with US GAAP provided that its principal activity does not consist of property development and/or investment and it has adopted US GAAP for the purposes of reporting to shareholders on the New York Stock Exchange or Nasdaq National Market.

**GEMR 7.14**

Except as provided in rule 7.13, in exceptional circumstances, the Exchange may allow an accountants report be drawn up otherwise than in conformity with either of the standards referred to in rule 7.12 (see above). If such approval is given, the Exchange will *normally* require the report to contain a statement of the financial effect of the material differences (if any) and a summary of any material differences in disclosure (if any) from either of the standards referred to in rule 7.12 (see above).



**IPO and Transaction Circulars**

**Accountants' Report**

**Accounting standards**

**Auditing standards**

**Qualifications of reporting accountants**

**B2. Secondary listings** are only applicable to Main Board

<p>Issuers incorporated in the Mainland</p>	<p>No specific rules but requirements applicable to secondary listings of issuers incorporated overseas are expected to be followed by issuers incorporated in the Mainland (see below).</p> <p><u>MBR 19.39</u> The accountants' report must <i>normally</i> be drawn up in conformity with:-</p> <ul style="list-style-type: none"> <li>(i) HKFRS or</li> <li>(ii) IFRS or</li> <li>(iii) generally accepted accounting principles in the United States of America ("US GAAP").</li> </ul> <p>Where the Exchange allows reports to be drawn up otherwise than in conformity with the accounting standards set out in this rule, the Exchange may, having regard to the exchange on which the overseas issuer has its primary listing, require the report to contain a statement of the financial effect of the material differences (if any) from either of the accounting standards referred to in rule 4.11 (see B1 above).</p>	<p>No specific rules but requirements applicable to secondary listings of issuers incorporated overseas are expected to be followed by issuers incorporated in the Mainland (see below).</p> <p><u>MBR 19.38</u> Audited to a standard comparable to that required in Hong Kong.</p>	<p>No specific rules but requirements applicable to secondary listings of issuers incorporated overseas are expected to be followed by issuers incorporated in the Mainland (see below).</p> <p><u>MBR 19.37</u> Requires reporting accountants to be independent and refers to MBR 4.03 (see below).</p> <p><u>MBR 4.03</u></p> <ul style="list-style-type: none"> <li>(i) Qualified under Professional Accountants Ordinance for appointment as auditors of a company</li> <li>(ii) Independent to the same extent as that required of an auditor under Companies Ordinance and in accordance with the statements on independence issued by HKICPA</li> <li>(iii) in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, it can be a firm of accountants that has an international name and reputation and be a member of a recognised body of accountants.</li> </ul> <p>Chapter 32 Companies Ordinance – Third Schedule Paragraph 43 states that "Any report by accountants required by Part II [<i>refers to accountants' report in prospectus</i>] shall be made by accountants qualified under the Professional Accountants Ordinance (Cap 50) for appointment as auditors of a company ...".</p>
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## APPENDIX 3

# COMPARISON OF ACCOUNTING AND AUDITING STANDARDS AND AUDIT FIRMS ACCEPTED IN OTHER EXCHANGES - AS AT 30 APRIL 2009

	Hong Kong Stock Exchange Main and GEM Boards (Listing Rules)	Shanghai and Shenzhen Stock Exchanges (CSRC and MOF Notices)	New York Stock Exchange (SEC Rules)	London Stock Exchange (UKLA Rules)	European Union (EU Directives)	Toronto Stock Exchange (OSC Rules and Policies)	Tokyo Stock Exchange (Financial Instruments & Exchange Act)	Australian Stock Exchange (Listing Rules)	Singapore Stock Exchange (Listing Manual)
<b>Accounting standards</b>									
<b>Annual financial statements</b>	<ul style="list-style-type: none"> <li>• HKFRS</li> <li>• IFRS</li> </ul> <p><b>(Note 1)</b></p> <p><i>(MB Rule A.16(2) Note 2.1 and GEM Rule 18.04)</i></p>	<ul style="list-style-type: none"> <li>• China Accounting Standards for Business Enterprises issued by the MOF</li> </ul> <p><i>(Zheng Jian Kuai Ji Zi [2007] No.9)</i></p>	<ul style="list-style-type: none"> <li>• US GAAP</li> <li>• IFRS</li> <li>• National GAAP with reconciliation to US GAAP (for foreign private issuers)</li> </ul> <p><i>(Form 20-F)</i></p>	<ul style="list-style-type: none"> <li>• IFRS <i>(DTR 4.1.6R(1)(a))</i></li> <li>• Standards regarded by the EU as equivalent to IFRS <b>(Note 2)</b> (for non-EU issuers)</li> </ul> <p><i>(DTR 4.4.8R)</i></p> <p><i>(Directive 2004/109/EC)</i></p>	<ul style="list-style-type: none"> <li>• IFRS</li> <li>• Standards regarded by the EU as equivalent to IFRS <b>(Note 2)</b> (for non-EU issuers)</li> </ul> <p><i>(EC Regulation No. 1606/2002)</i></p> <p><i>(Directive 2004/109/EC)</i></p> <p><i>(Commission Decision 2008/961/EC)</i></p>	<ul style="list-style-type: none"> <li>• Canadian GAAP</li> <li>• IFRS</li> <li>• US GAAP - without reconciliation (only for SEC foreign issuers)</li> <li>- with reconciliation to Canadian GAAP (for other foreign issuers)</li> <li>• National GAAP - with reconciliation to Canadian GAAP but only where National GAAP is substantially the same as Canadian GAAP - without reconciliation to Canadian GAAP (only permitted for designated foreign jurisdictions <b>(Note 3)</b>)</li> </ul> <p><i>(Part 5 of National Instrument 52-107)</i></p>	<ul style="list-style-type: none"> <li>• Japanese GAAP</li> <li>• US GAAP with reconciliation to Japanese GAAP under the discretion of the Commissioner of Financial Service Agency in Japan (for SEC issuers)</li> </ul> <p><i>(Article 193 with reference to Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements)</i></p>	<ul style="list-style-type: none"> <li>• Australian accounting standards</li> <li>• Other standards acceptable to ASX e.g. IFRS, accounting standards required in Canada, Hong Kong, New Zealand, Singapore, South Africa, UK and USA (if the entity is a foreign entity)</li> </ul> <p><b>(Note 4)</b></p> <p><i>(Rules 4.3A and 19.11A(b))</i></p> <p><i>(Paragraph 52 of Guidance Note 4)</i></p>	<ul style="list-style-type: none"> <li>• SFRS</li> <li>• IFRS</li> <li>• US GAAP <i>(Rule 220(1))</i></li> </ul>
<b>Accountants' reports / financial statements included in listing documents</b>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(MB Rules 4.11, 19.14 and 19A.10 and GEM Rules 7.12, 24.02 and 25.02)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Order of the CSRC [2006] No.32)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Form F-1)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Annex I – 20.1 of Prospectus Rule App 3.1.1)</i></p> <p><i>(EC Regulation No. 1606/2002)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(EC Regulation No. 1606/2002)</i></p> <p><i>(Directive 2003/71/EC)</i></p> <p><i>(Commission Decision 2008/961/EC)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Part 5 of National Instrument 52-107)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Article 193 with reference to Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Rules 1.2.3(a), 1.3.5(a) and 19.11A(b))</i></p> <p><i>(Paragraph 52 of Guidance Note 4)</i></p>	<ul style="list-style-type: none"> <li>• Same as the above</li> </ul> <p><i>(Rule 220(1))</i></p>

Hong Kong Stock Exchange Main and GEM Boards (Listing Rules)	Shanghai and Shenzhen Stock Exchanges (CSRC and MOF Notices)	New York Stock Exchange (SEC Rules)	London Stock Exchange (UKLA Rules)	European Union (EU Directives)	Toronto Stock Exchange (OSC Rules and Policies)	Tokyo Stock Exchange (Financial Instruments & Exchange Act)	Australian Stock Exchange (Listing Rules)	Singapore Stock Exchange (Listing Manual)	
<b>Auditing standards</b>									
<b>Annual financial statements</b>	<ul style="list-style-type: none"> <li>A standard comparable to HKSA issued by the HKICPA or ISA issued by IAASB</li> </ul> <p><i>(MB Rules 19.21 and 19A.32 and GEM Rules 24.14 and 25.26)</i></p>	<ul style="list-style-type: none"> <li>China auditing standards issued by the MOF</li> </ul> <p><i>(Cai Kuai [2006] No. 4)</i></p>	<ul style="list-style-type: none"> <li>US GAAS established by the PCAOB and approved by the SEC</li> </ul> <p><i>(Section 103 of the Sarbanes-Oxley Act of 2002)</i></p>	<ul style="list-style-type: none"> <li>ISA</li> <li>Auditing standards equivalent to ISA (for non-EU issuers)</li> </ul> <p><i>(DTR 4.1.7R(1)) (Directive 2006/43/EC)</i></p>	<ul style="list-style-type: none"> <li>ISA</li> <li>Auditing standards equivalent to ISA (for non-EU issuers)</li> </ul> <p><i>(Directive 2006/43/EC)</i></p>	<ul style="list-style-type: none"> <li>Canadian GAAS</li> <li>US GAAS</li> <li>ISA</li> <li>Auditing Standards accepted in the designated foreign jurisdiction (<b>Note 3</b>)</li> </ul> <p><i>(Parts 3 and 5 of National Instrument 52-107)</i></p>	<ul style="list-style-type: none"> <li>Japanese GAAS</li> <li>Auditing standards equivalent to Japanese GAAS (for foreign audit firms)</li> </ul> <p><i>(Article 193-2 with reference to Cabinet Office Ordinance on Audit Attestation on Financial Statements)</i></p>	<ul style="list-style-type: none"> <li>Australian auditing standards</li> <li>Other standards agreed by ASX, e.g. ISAs, auditing standards required in Canada, Hong Kong, New Zealand, Singapore, South Africa, UK and USA (if the entity is a foreign entity)</li> </ul> <p><i>(Rules 4.3A and 19.11A(c)) (Paragraph 53 of Guidance Note 4)</i></p>	<ul style="list-style-type: none"> <li>Singapore Standards on Auditing</li> <li>ISA</li> <li>US GAAS</li> </ul> <p><i>(Rule 609(h))</i></p>
<b>Accountants' reports / financial statements included in listing documents</b>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(MB Rules 4.08(3), 19.12 and 19A.09 and GEM Rules 7.08(3), 24.02 and 25.02)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Cai Kuai [2006] No. 4)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Section 103 of the Sarbanes-Oxley Act of 2002)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(LR 6.1.3R(d)) (Annex I – 20.1 of Prospectus Rule App 3.1.1)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Annex I – 20.1 of Commission Regulation No. 809/2004)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Parts 3 and 5 of National Instrument 52-107)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Article 193-2 with reference to Cabinet Office Ordinance on Audit Attestation on Financial Statements)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Rules 1.2.3(a), 1.3.5(a) and 19.11A(c)) (Paragraph 53 of Guidance Note 4)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Rule 609(h))</i></p>

	Hong Kong Stock Exchange Main and GEM Boards (Listing Rules)	Shanghai and Shenzhen Stock Exchanges (CSRC and MOF Notices)	New York Stock Exchange (SEC Rules)	London Stock Exchange (UKLA Rules)	European Union (EC Directives)	Toronto Stock Exchange (OSC Rules and Policies)	Tokyo Stock Exchange (Financial Instruments & Exchange Act)	Australian Stock Exchange (Listing Rules)	Singapore Stock Exchange (Listing Manual)
<b>Qualified auditors / Reporting accountants</b>									
<b>Annual financial statements</b>	<ul style="list-style-type: none"> <li>Qualified under the PAO</li> <li>For overseas issuers - A firm of accountants acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants</li> <li>For PRC incorporated issuers only - A firm of accountants acceptable to the Exchange which is a joint venture approved or permitted by the CSRC or other competent authority in the PRC to act as an auditor of a listed company in the PRC and at least one of whose principal joint venture partners is either qualified under the PAO or acceptable to the Exchange</li> </ul> <p><i>(MB Rules 19.20, and 19A.31 and GEM Rules 24.13 and 25.25)</i></p>	<ul style="list-style-type: none"> <li>Registered with and oversight by the MOF and the CSRC</li> </ul> <p><i>(Cai Kuai [2007] No. 6)</i></p>	<ul style="list-style-type: none"> <li>Registered with and oversight by the PCAOB</li> </ul> <p><i>(Section 102 of the Sarbanes-Oxley Act of 2002)</i></p>	<ul style="list-style-type: none"> <li>Registered with and oversight by the Professional Oversight Board of the Financial Reporting Council</li> <li>For third country companies listed in European markets</li> </ul> <p>- 30 non-EU countries are exempt from registration of audit firm requirements and are acceptable until 1 July 2010 <b>(Note 5)</b></p> <p><i>(DTR 4.1.7R)</i></p>	<ul style="list-style-type: none"> <li>Registered with and oversight by audit oversight bodies of relevant EU state</li> <li>For third country companies listed in European markets</li> </ul> <p>- 30 non-EU countries are exempt from registration of audit firm requirements and are acceptable until 1 July 2010 <b>(Note 5)</b></p> <p><i>(Directive 2006/43/EC) (Commission Decision 2008/627/EC)</i></p>	<ul style="list-style-type: none"> <li>A person or company that is authorized to sign an auditor's report by the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction</li> </ul> <p><i>(Part 3 of National Instrument 52-107)</i></p>	<ul style="list-style-type: none"> <li>Registered with and oversight by the Financial Services Agency in Japan</li> </ul> <p><i>(Revised CPA Act)</i></p>	<ul style="list-style-type: none"> <li>A registered company auditor registered with Australian Securities and Investments Commission</li> <li>If the entity is a foreign entity, the audit may be conducted by an overseas equivalent of a registered company auditor ("overseas equivalent" however is not defined)</li> </ul> <p><i>(Rules 19.11A (c),(d))</i></p>	<ul style="list-style-type: none"> <li>A suitable accounting firm ("suitable accounting firm" however is not defined)</li> </ul> <p><i>(Rule 712)</i></p>
<b>Accountants' reports / financial statements included in listing documents</b>	<ul style="list-style-type: none"> <li>Qualified under the PAO</li> <li>In connection with the acquisition of an overseas company only - A firm of accountants acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants</li> </ul> <p><i>(MB Rules 4.03, 19.11 and 19A.08 and GEM Rules 7.02, 24.02 and 25.02)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Cai Kuai [2007] No. 6)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Section 102 of the Sarbanes-Oxley Act of 2002)</i></p>	<ul style="list-style-type: none"> <li>Same as above</li> </ul> <p><i>(Listing Rule 6.1.3R(d)) (Directive 2006/43/EC)</i></p>	<ul style="list-style-type: none"> <li>Same as above</li> </ul> <p><i>(Directive 2003/71/EC) (Directive 2006/43/EC)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Part 3 of National Instrument 52-107)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Revised CPA Act)</i></p>	<ul style="list-style-type: none"> <li>Same as the above</li> </ul> <p><i>(Rules 19.11A (c),(d))</i></p>	<ul style="list-style-type: none"> <li>A certified public accountant ("certified public accountant" however is not defined)</li> </ul> <p><i>(Rule 609(h))</i></p>

Note 1	Allow accountants' reports and annual accounts to conform with US GAAP if (a) for a Main Board issuer with a secondary listing ( <i>MB Rules 19.39 and A.16(2) Note 2.4</i> ), (b) for a GEM issuer that is also listed on the NYSE or Nasdaq ( <i>GEM Rules 7.04 and 18.05</i> ) and its principal activity does not consist of property development and/or investment.
Note 2	Includes the GAAPs of USA, Japan, Canada, China, South Korea and India – became effective on 1 January 2009. ( <i>Article 1 of Commission Decision 2008/961/EC</i> )
Note 3	Designated foreign jurisdiction means Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, New Zealand, Singapore, South Africa, Spain, Sweden, Switzerland or the United Kingdom of Great Britain and Northern Ireland. ( <i>Part 1 of National Instrument 52-107</i> )
Note 4	An entity wishing to use accounting standards which are not acceptable to ASX must attach a statement reconciling that financial information to the equivalent financial information prepared using either Australian accounting standards or IFRS. ( <i>Paragraphs 52 of Guidance Note 4 issued in September 2007</i> )
Note 5	<p>30 third country audit firms are permitted to continue their audit activities regarding third country companies listed on European markets until 1 July 2010. The countries concerned are Argentina, Australia, the Bahamas, the Bermudas, Brazil, Canada, the Cayman Islands, Chile, China, Croatia, Guernsey, Jersey, the Isle of Man, Hong Kong, India, Indonesia, Israel, Japan, Kazakhstan, Malaysia, Mauritius, Mexico, Morocco, New Zealand, Pakistan, Russia, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, Turkey, Ukraine, the United Arab Emirates and the United States of America. (<i>Annex of Commission Decision 2008/627/EC</i>)</p> <p>On 12 December 2008, the European Commission announced that Mainland accounting standards, amongst others, were regarded as equivalent to IFRS as adopted by the European Union. The European Commission also announced that it will also regularly monitor the on-going status of equivalence.</p>

#### Abbreviations

ASX	Australian Stock Exchange
CSRC	China Securities Regulatory Commission
DTR	Disclosure Rules and Transparency Rules
EU	European Union
Exchange	Hong Kong Stock Exchange
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSA	Hong Kong Standards on Auditing
IAASB	International Auditing and Assurance Standards Board
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
MOF	Ministry of Finance of the People's Republic of China
Nasdaq	Nasdaq National Market
NYSE	New York Stock Exchange
OSC	Ontario Securities Commission
PAO	Professional Accountants Ordinance (Hong Kong)
PCAOB	Public Company Accounting Oversight Board
PRC	People's Republic of China
SEC	US Securities and Exchange Commission
SFRS	Singapore Financial Reporting Standards
UKLA	United Kingdom Listing Authority

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## **APPENDIX 4 CURRENT REGULATIONS GOVERNING AUDITORS AND REPORTING ACCOUNTANTS**

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### Companies Ordinance

1. For companies incorporated in Hong Kong, the Hong Kong Companies Ordinance sets out requirements as to auditors who are responsible for auditing annual financial statements presented to shareholders at annual general meetings. It also contains provisions concerning reporting accountants who are required to report on financial information included in prospectuses which invite Hong Kong investors to subscribe for shares, or transaction circulars which are presented to shareholders to decide whether or not to proceed with a proposed transaction, such as a substantial acquisition or disposal.
2. Under section 140 of the Companies Ordinance a person is not qualified to be appointed as an auditor unless he is qualified under the Professional Accountants Ordinance (“PAO”).
3. Part XI to the Companies Ordinance sets out special provisions for companies incorporated outside Hong Kong which have a place of business in Hong Kong. Section 336 requires the submission, each calendar year, by an overseas company of its financial statements, together with the auditors’ report, if any, required by the company’s home jurisdiction. Where the overseas company is not required by law of the place of its incorporation to prepare financial statements, the company is required to prepare and submit to the Registrar of Companies its financial statements and a report thereon by qualified auditors as if it were a company incorporated under the Companies Ordinance.
4. Under paragraph 43 to the Third Schedule to the Companies Ordinance, whether or not the company is incorporated in Hong Kong or elsewhere, the report of the reporting accountants included in a prospectus must be made by an accountant who is qualified under the Professional Accountants Ordinance for appointment as auditor of a company. The reporting accountant must therefore be a HKICPA member holding a valid practising certificate. However, a request for waiver of this requirement may be made if the requirement is regarded as unduly burdensome, and the SFC will determine whether a waiver should be granted on a case-by-case basis.

### Professional Accountants Ordinance

5. Under the PAO, the HKICPA is charged with the regulation of the accounting profession in Hong Kong, including the issue of practising certificates which enable a person to act as an auditor. Once a member of the Institute obtains a valid practising certificate, he/she is able to provide audit services to a company that presents financial statements or information to Hong Kong investors irrespective of whether the company is incorporated in or outside Hong Kong.

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6. Under sections 29A and 30 of the PAO, to be eligible for a practising certificate, a person must:-
- (a) be a certified public accountant (“CPA”), that is, member of the Institute;
  - (b) have passed the Institute’s examinations in Hong Kong law and taxation and where applicable, auditing;
  - (c) have four years of full-time practical experience (75% in auditing) in the office of a full-time practising certificate holder or a CPA practice in Hong Kong or a person practising public accountancy in a recognised jurisdiction (Australia, Canada, Ireland, New Zealand, South Africa, the United Kingdom and Zimbabwe), of which at least one year is post-qualifying experience;
  - (d) have gained one year of auditing experience in Hong Kong within three years prior to the date of application;
  - (e) be ordinarily resident in Hong Kong;
  - (f) not be or have not become bankrupt and have not entered into a voluntary arrangement with creditors within the meaning of the Bankruptcy Ordinance;
  - (g) have complied with relevant Continuing Professional Development requirements prescribed by the Institute; and
  - (h) declare in the application form that they have not been convicted either in Hong Kong or overseas of an offence involving fraud or dishonesty and have not been found guilty of professional misconduct by an overseas professional or regulatory body, and submit two character references vouching for the applicant’s good character and fitness and propriety to become a practising CPA (not an express provision of PAO but a HKICPA Council admission rule).
7. The PAO therefore effectively prohibits an overseas person from acting as an auditor or reporting accountant as there is a Hong Kong residency requirement.
8. The HKICPA also does not have a separate licensing regime or qualification requirements for auditors of listed companies in Hong Kong. A practising certificate entitles the auditor to audit both listed and non-listed companies. In practice, audit services are provided either through a sole proprietorship practice, a partnership or through a limited company.

#### Financial Reporting Council Ordinance

9. To strengthen the regulation of auditors and the presentation of financial information by companies listed in Hong Kong, in July 2007 the FRC was established under the Financial Reporting Council Ordinance as an independent regulatory body charged with the responsibility to:-
- enquire into non-compliance with accounting or other regulatory requirements in the financial reports of listed issuers, and where appropriate, to appoint a Financial Reporting Review Committee to conduct such enquiries.
  - investigate suspected irregularities committed by auditors of listed issuers in the audit of accounts and suspected irregularities committed by reporting accountants of listed issuers in the preparation of financial reports for prospectuses or other listing documents, and where appropriate, to establish an Audit Investigation Board to conduct such investigations.

- 
10. Under the FRC Ordinance, all past and current auditors and reporting accountants of companies listed in Hong Kong, even though the auditor or reporting accountant may not be a member of HKICPA, are subject to the enquiry and investigatory powers of the FRC.
  11. The FRC Ordinance empowers the FRC to require listed entities and related parties to produce documents and provide information and explanations for the purpose of an enquiry. If there is non-compliance with these requirements, in the case of a company incorporated in Hong Kong the FRC may apply to the Court of First Instance in Hong Kong for a court order to compel compliance.
  12. Mainland incorporated companies listed in Hong Kong are therefore subject to Hong Kong laws. Most companies listed in Hong Kong are incorporated elsewhere (e.g. Mainland, Bermuda and Cayman Islands), and the position under the FRC Ordinance in relation to all these “overseas” entities listed in Hong Kong is the same.

**Current Listing Rule requirements concerning auditors and reporting accountants for Mainland incorporated issuers**

13. The current relevant Listing Rules governing the qualifications of auditors and reporting accountants are set out in **Appendix 2** and are discussed below.

Auditors

14. The principal requirements governing auditors of overseas incorporated companies are included in Main Board Rule 19.20 (GEM Rule 24.13) and are as follows:-
  - (a) qualified under the Professional Accountants Ordinance for appointment as an auditor of a company, that is, a HKICPA member with a valid practising certificate; or
  - (b) a firm of accountants acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants.
15. For companies incorporated in the Mainland, under Main Board Rule 19A.31 (GEM Rule 25.25), the audit firms that qualify are expanded to include an audit firm that is a joint venture approved or permitted by the China Securities Regulatory Commission or other competent authority in the Mainland to act as an auditor of a listed company in the Mainland and at least one of whose principal joint venture partners is either qualified under (a) or acceptable under (b) as set out in paragraph 14 above. Currently, there are no Hong Kong listed issuers that have chosen to use audit firms that fall within this expanded category.



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## Reporting accountants

16. For Mainland incorporated companies, the relevant rules on reporting accountants are Main Board Rule 19A.08 and GEM Rule 25.01(3) and these refer to other rules that also apply to other issuers incorporated overseas or in Hong Kong.
17. The principal rule concerning reporting accountants is Main Board Rule 4.03 and GEM Rule 7.02 contains similar wording which is as follows:-

*All accountants' reports must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants, provided that, in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Exchange may be prepared to permit the accountants' report to be prepared by a firm of accountants which is not so qualified but which is acceptable to the Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.*

18. The current rules therefore effectively require the reporting accountant to be a member of HKICPA, the only exception being where a transaction circular relates to the acquisition of an overseas target in which case an overseas audit firm with an international name and reputation may be used.

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**APPENDIX 5**  
**MAINLAND INCORPORATED COMPANIES LISTED IN HONG KONG**  
**AS AT 31 DECEMBER 2008**

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	HKFRS	IFRS	Total
<b>H-Share only</b>			
- Main Board	32	21	53
- GEM	<u>32</u>	<u>8</u>	<u>40</u>
	<b>64</b>	<b>29</b>	<b>93</b>
<b>A+H Share (all Main Board)</b>	<u>26</u>	<u>31</u>	<u>57</u>
<b>Total</b>	<u><b>90</b></u>	<u><b>60</b></u>	<u><b>150</b></u>

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## APPENDIX 6

### DRAFT RULE AMENDMENTS

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#### PART A – MAIN BOARD LISTING RULES

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#### “INTERPRETATION

1.01 Throughout this book, the following terms, save where the context otherwise requires, have the following meanings:

...

<b><u>“China Accounting Standards for Business Enterprises” or “CASBE”</u></b>	<u>financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance</u>
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<b><u>“China Auditing Standards” or “CAS”</u></b>	<u>standards and interpretations issued by the China Auditing Standards Board of the China Ministry of Finance</u>
---	--

<b>“Hong Kong Financial Reporting Standards” or “HKFRS”</b>	<u>financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They <del>or “HKFRS”</del> comprise (i) Hong Kong Financial Reporting Standards, (ii) Hong Kong Accounting Standards (formerly Statement of Standard Accounting Practice), and (iii) Interpretations</u>
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<b>“International Financial Reporting Standards” or “IFRS”</b>	<u>financial reporting standards and interpretations approved by the International Accounting Standards Board (“IASB”), <del>or “IFRS”</del> and includes all International Accounting Standards (“IAS”) and interpretations issued under the former International Accounting Standards Committee (“IASC”) from time to time</u>
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<b><u>“International Standards on Auditing” or “ISA”</u></b>	<u>standards and interpretations issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants</u>
--	--

<b><u>“practising accountant”</u></b>	<u>an individual, firm or company qualified for appointment as an auditor or reporting accountant of a company</u>
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<b>“professional accountant”</b>	<u>a person registered as a professional accountant under the Professional Accountants Ordinance</u>
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“reporting accountant”

the professional accountant or practising accountant who is responsible for the preparation of the accountants’ report included in a listing document or circular in accordance with Chapter 4

>>>

### Reporting Accountants

- 4.03 All accountants’ reports must normally be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants, provided that, in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Exchange may be prepared to permit the accountants’ report to be prepared by a firm of practising accountants which is not so qualified but which is acceptable to the Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

...

### Specific detail concerning financial information

4.05 ...

- (4) Segment information

the income statement and balance sheet shall, in addition to that information required by rules 4.05(1) to 4.05(2), include segmental ~~the~~ information required by the accounting standards adopted for the preparation of its annual financial statements:—

- (a) ~~Statement of Standard Accounting Practice 26 segment reporting if the issuer prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~
- (b) ~~International Accounting Standard 14 reporting financial information by segment if the issuer prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS); or~~
- (c) China Accounting Standards for Business Enterprises (CASBE).

*Note: The information required by this rule may be provided on the face of the income statement or the balance sheet, as appropriate, or in the notes to the financial statements.*

...

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## Requirements applicable in all cases

4.08 ...

- (2) the reporting accountants must express an opinion as to whether or not the relevant information gives, for the purposes of the accountants' report, a true and fair view of the results and cash flows for the period reported on and of the balance sheet as at the end of each of the period reported on;
- (3) the accountants' report must state that it has been prepared in accordance with the Auditing Guideline – Prospectuses and the reporting accountant (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants;
- (4) the reporting accountants must be named in the accountants' report; and
- (5) the accountants' report must be dated.

...

## Disclosure

4.10 The information to be disclosed in respect of rules 4.04 to 4.09 must be in accordance with best practice which is at least that required to be disclosed in respect of those specific matters in the accounts of a company under the Companies Ordinance and ~~Hong Kong Financial Reporting Standards (HKFRS), or IFRS International Financial Reporting Standards~~ or CASBE in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements and, in the case of banking companies, the Financial Disclosure by Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority.

## Accounting Standards

- 4.11 The financial history of results and the balance sheet included in the accountants' report must normally be drawn up in conformity with:—
- (a) Hong Kong Financial Reporting Standards (HKFRS); or
  - (b) International Financial Reporting Standards- (IFRS); or ~~Listed issuers and listing applicants, which adopt IFRS, are required:—~~
    - (i) ~~to disclose and explain differences of accounting practice between IFRS and HKFRS, which have a significant effect on their financial statements; and~~
    - (ii) ~~to compile a statement of the financial effect of any such material differences.~~
  - (c) China Accounting Standards for Business Enterprises (CASBE) in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

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*Notes: The issuer must apply one of these bodies of standards consistently and shall not change from one body of standards to the other.*

>>>

### **Definitions**

14.04 For the purposes of this Chapter:-

(1) ...

*Note 2(c) the issuer's format for reporting segmental information is in business segments, and its latest published annual financial statements have fully complied with the requirements of ~~Hong Kong Accounting Standard 14 or International Accounting Standard 14, as appropriate, which require, amongst others,~~ relevant accounting standards adopted for the preparation of its annual financial statements on reporting of segment revenue and segment expense.*

...

### *Consideration*

14.15 When calculating the consideration ratio:—

(1) the value of the consideration shall be the fair value of the consideration determined at the date of the agreement of the transaction in accordance with applicable ~~Hong Kong Financial Reporting Standards, or International Financial Reporting Standards,~~ accounting standards adopted for the preparation of the listed issuer's annual financial statements. Normally, the fair value of the consideration should be the same as the fair value of the asset which is the subject of the transaction. Where there is a significant disparity between the fair value of the consideration and the fair value of the asset, the listed issuer must use the higher of the fair value of the consideration and the fair value of the asset as the numerator of the consideration ratio;

...

*Figures used in total assets, profits and revenue calculations*

...

14.17 The profits (see rule 14.13) and revenue (see rule 14.14) figures to be used by a listed issuer for the basis of the profits ratio and revenue ratio must be the figures shown in its accounts. Where a listed issuer has discontinued one or more of its operating activities during the previous financial year and has separately disclosed the profits and revenue from the discontinued operations in its accounts in accordance with applicable ~~Hong Kong Financial Reporting Standards, or International Financial Reporting Standards,~~ accounting standards adopted for the preparation of the listed issuer's annual financial statements, the Exchange may be prepared to accept the exclusion of such profits and revenue for the purpose of the profits ratio and revenue ratio respectively.

...

---

14.19 In calculating total assets, the Exchange may require the inclusion of further amounts where contingent assets are involved.

*Note: Contingent assets normally refer to assets that will have to be acquired by a listed issuer pursuant to an agreement upon occurrence or non-occurrence of certain event(s) after the listed issuer has entered into the agreement. Such event(s) is /are normally beyond the control of the listed issuer and the parties to the transaction. Contingent assets must be determined in accordance with applicable ~~Hong Kong Financial Reporting Standards~~, ~~or International Financial Reporting Standards~~ accounting standards adopted for the preparation of the listed issuer's annual financial statements.*

>>>

## ISSUERS INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA

### Preliminary

19A.01 ...

- (3) The purpose of this Chapter is to clarify that the Exchange Listing Rules apply as much to PRC issuers as they do to Hong Kong and overseas issuers, subject to the additional requirements, modifications and exceptions set out or referred to in this Chapter. Among such requirements are that (a) PRC issuers are expected to present their annual accounts in accordance with ~~Hong Kong or international accounting standards~~ HKFRS, IFRS or CASBE; (b) the articles of association of PRC issuers must contain provisions which will reflect the different nature of domestic shares and overseas listed foreign shares (including H shares) and the different rights of their respective holders; and (c) disputes involving holders of H shares and arising from a PRC issuer's articles of association, or from any rights or obligations conferred or imposed by the Company Law and any other relevant laws and regulations concerning the affairs of the PRC issuer, are to be settled by arbitration in either Hong Kong or the PRC at the election of the claimant.

...

## Chapter 4 — Accountants' Reports and Pro Forma Financial Information

19A.08 The reporting accountants for a PRC issuer must normally be qualified and be independent to the same extent as required under rule 4.03 for the reporting accountants of any other issuer. The Exchange also accepts a firm of practising accountants which has been approved by the China Ministry of Finance and the China Securities Regulatory Commission as being suitable to act as an auditor or a reporting accountant for a PRC incorporated company listed in Hong Kong.

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19A.09 A report will not normally be regarded as acceptable unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards.

19A.10 Reports for PRC issuers will normally be required to conform with the requirements as to accounting standards set out in rules 4.11 to 4.13, ~~except that PRC issuers, which adopt IFRS, will not be required to comply with the requirements in (b)(i) and (ii) of rule 4.11.~~

~~Note: A report for a PRC issuer may, in addition, present in a separate part of the report financial information conforming with applicable PRC accounting rules and regulations provided that the report contains a statement of the financial effect of the material differences (if any) from either of the accounting standards referred to in rule 4.11, as the case may be.~~

...

### ***Annual report and accounts and auditors' report***

19A.30 The following modifications and additional requirements apply to Appendix 16 insofar as an issuer is a PRC issuer. To the extent such modifications and additional requirements conflict with the provisions of Appendix 16, the following provisions shall apply.

19A.31 The annual accounts must be audited by a person, firm or company who must be a practising accountant of good standing. Such person, firm or company must also be independent of the PRC issuer to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the statements on independence issued by the International Federation of Accountants and, if the PRC issuer's primary listing is or is to be on the Exchange, must be:

- (1) qualified under the Professional Accountants Ordinance for appointment as an auditor of a company; or
- (2) a firm of practising accountants acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants; or
- (3) a firm of practising accountants acceptable to the Exchange which is a joint venture approved or otherwise permitted by the China Securities Regulatory Commission or other competent authority in the PRC to act as an auditor of a listed company in the PRC and at least one of whose principal joint venture partners is either qualified under (1) or acceptable under (2); or
- (4) a firm of practising accountants which has been approved by the China Ministry of Finance and the China Securities Regulatory Commission as being suitable to act as an auditor or a reporting accountant for a PRC incorporated company listed in Hong Kong.



---

19A.32 The accounts must be audited to a standard comparable to that required by the in Hong Kong Institute of Certified Public Accountants or by the International Auditing and Assurance Standards Board of the International Federation of Accountants or under International Standards on Auditing or China Auditing Standards.

19A.33 The report of the auditors must be annexed to all copies of the annual accounts required to be sent by the PRC issuer and indicate whether in the opinion of the auditors the accounts give a true and fair view:

- (1) in the case of the PRC issuer's balance sheet, of the state of its affairs at the end of the financial year and in the case of the PRC issuer's profit and loss account, of the profit or loss and in the case of the PRC issuer's cash flow statement, of the cash flows for the financial year; and
- (2) in the case where consolidated accounts are prepared, of the state of affairs, the profit or loss, and the cash flows of the PRC issuer and the group of which the PRC issuer is the holding company.

19A.34 The report of the auditors must indicate the act, ordinance or other legislation in accordance with which the annual accounts have been drawn up and the authority or body whose auditing standards have been applied.

19A.35 If the PRC issuer is not required to draw up its accounts so as to give a true and fair view but is required to draw them up to an equivalent standard, the Exchange may allow its accounts to be drawn up to that standard. Reference must, however, be made to the Exchange.

19A.36 If the PRC issuer's primary listing is or is to be on another stock exchange, an auditors' report which conforms to the requirements of the International Standards on Auditing issued by the ~~International Auditing and Assurance Standards Board of the International Federation of Accountants~~ or China Auditing Standards is acceptable.

...

19A.39 References in Chapter 14 to an issuer's "accounts" shall mean, in the case of a PRC issuer, the latest published audited accounts or consolidated accounts of such issuer which have been prepared in accordance with ~~either Hong Kong accounting Standards, or International accounting Standards or~~ Financial Reporting Standards, or International accounting Standards or China Accounting Standards for Business Enterprises as provided for in rule 19A.10 or rule 19A.31, as the case may be.

>>>

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**Appendix 7  
Part C**

**Information to accompany annual report and accounts**

9. (1)...  
...

- (h) if the Issuer is incorporated or otherwise established in Hong Kong, a statement by the directors as to the reasons for any significant departure from applicable standard accounting practices ~~in Hong Kong~~;

*9.4 The Exchange supports the policy of the Hong Kong Institute of Certified Public Accountants in formulating and publishing financial reporting standards for Hong Kong. The Exchange expects the accounts of issuers incorporated or otherwise established in Hong Kong to comply with Hong Kong Financial Reporting Standards, or International Financial Reporting Standards.*

>>>

**Appendix 15**

**BANKING REPORTING**

This appendix sets out the minimum level of information to be included in annual reports, interim reports and preliminary announcements of issuers that are banking companies (meaning banks, restricted licence banks and deposit taking companies as defined in the Banking Ordinance.)

1. At least the following information shall be contained in interim reports, annual reports, preliminary announcements of results, listing documents and circulars:  
...

(III) Segment information

Information required by the accounting standards adopted by the issuer for the preparation of its annual financial statements:–

- (a) ~~Statement of Standard Accounting Practice 26 if it prepares its annual financial statements in accordance with standard accounting practices in Hong Kong~~ Financial Reporting Standards (HKFRS); or  
(b) ~~International Accounting Standard 14 if it prepares its annual financial statements in accordance with~~ International Financial Reporting Accounting Standards (IFRS); or  
(c) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP;~~ or  
(d) China Accounting Standards for Business Enterprises (CASBE).

...

- 
2. In the case of interim reports, ~~the following additional information:~~
- ~~(i) for Hong Kong incorporated issuers those matters set out in rule 13.48 and any other information required by the Hong Kong Monetary Authority in relation to interim reports (where applicable); or~~
  - ~~(ii) for overseas incorporated issuers those matters set out in rule 13.48 and any other information required by the Hong Kong Monetary Authority in relation to interim reports (where applicable); or~~
  - ~~(iii) for PRC incorporated issuers those matters set out in rule 13.48 and any other information required by the Hong Kong Monetary Authority in relation to interim reports (where applicable); and~~
3. In the case of annual reports, ~~the following additional information:~~
- ~~(i) for Hong Kong incorporated issuers those matters set out in rule 13.47 and any other information required by the Hong Kong Monetary Authority in relation to annual reports (where applicable); or~~
  - ~~(ii) for overseas incorporated issuers those matters set out in rule 13.47 and any other information required by the Hong Kong Monetary Authority in relation to annual reports (where applicable); or~~
  - ~~(iii) for PRC incorporated issuers those matters set out in rule 13.47 and any other information required by the Hong Kong Monetary Authority in relation to annual reports (where applicable).~~

>>>

## Appendix 16

### Requirement for all Financial Statements

2. ...

- (6) accounting policies and explanatory notes.
  - 2.1 *Annual accounts of a listed issuer are required, subject to Notes 2.4 and 2.5, to conform with either:—*
    - (a) *Hong Kong Financial Reporting Standards (“HKFRS”); or*
    - (b) *International Financial Reporting Standards (“IFRS”); ~~or Listed issuers and new applicants, which adopt IFRS are required:—~~*
      - ~~(i) to disclose and explain differences of accounting practice between IFRS and HKFRS, which have a significant effect on their financial statements; and~~
      - ~~(ii) to compile a statement of the financial effect of any such material differences.~~
    - (c) *China Accounting Standards for Business Enterprises (CASBE) in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.*

- 
- 2.2 *An issuer must apply one of the bodies of standards referred to in Note 2.1 consistently and shall not normally change from one body of standards to the other unless there are reasonable grounds to justify such a change. All reasons for any such change must be disclosed in the annual accounts.*
- 2.3 ~~*Listed issuers and new applicants incorporated in the People's Republic of China, which adopt IFRS, are not subject to the requirements of (b)(i) and (ii) in Note 2.1 above. In the cases of issuers established in the People's Republic of China, annual accounts may also present in a separate part thereof financial information conforming with applicable PRC accounting rules and regulations so long as such accounts contain a statement of the financial effect of the material differences (if any) from either of the accounting standards referred to in Note 2.1.*~~  
*[Repealed [date]]*
- 2.4 *An overseas issuer, which has a secondary listing on the Exchange, may prepare annual accounts drawn up in conformity with Generally Accepted Accounting Principles in the United States of America ("US GAAP").*
- ....
- 2.6 *Where the Exchange, in exceptional circumstances, allows the annual accounts of an overseas issuer to be drawn up otherwise than in conformity with ~~either of the~~ accounting standards referred to in Note 2.1, the Exchange will normally require the annual accounts to contain a statement of the financial effect of the material differences (if any) from ~~either of the accounting standards~~ — HKFRS or IFRS referred to in Note 2.1 above.*

...

### **Basic Financial Information**

4. ...

(3) **Segment information**

The income statement and balance sheet of a listed issuer shall, in addition to that information required by paragraphs 4(1) and (2), include ~~the~~ segmental information required by the accounting standards adopted for the preparation of its annual financial statements:-

- (a) ~~Statement of Standard Accounting Practice 26 if it prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards~~ (HKFRS); or
- (b) ~~International Accounting Standard 14 if it prepares its annual financial statements in accordance with International Financial Reporting Standards~~ (IFRS); or

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(c) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP.; or~~

(d) China Accounting Standards for Business Enterprises (CASBE).

...

5. In the accounting policies section a listed issuer shall state which body of accounting standards have been followed in the preparation of its financial statements. Where applicable, a listed issuer should include a statement by the directors as to the reasons for any significant departure from an accounting standard that forms part of this body of accounting standards.

...

### **Information in annual reports**

7. A listed issuer shall include in its financial statements ~~the segmental information required by the accounting standards adopted for the preparation of its annual financial statements:—~~

(1) ~~Statement of Standard Accounting Practice 26 if it prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~

(2) ~~International Accounting Standard 14 if it prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS); or~~

(3) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP.; or~~

(4) China Accounting Standards for Business Enterprises (CASBE).

8. (1)...

...

(3) Where a listed issuer includes in its annual report particulars of a related party transaction or continuing related party transaction (as the case may be) in accordance with applicable accounting standards adopted for the preparation of its annual financial statements, ~~the Statement of Standard Accounting Practice “Related Party Disclosures” or Hong Kong Accounting Standard “Related Party Disclosures”, as appropriate, issued by the Hong Kong Institute of Certified Public Accountants or applicable International Financial Reporting Standards~~, it must specify whether or not the transaction falls under the definition of “connected transaction” or “continuing connected transaction” (as the case may be) in Chapter 14A of the Exchange Listing Rules. The listed issuer must also confirm whether or not it has complied with the disclosure requirements in accordance with Chapter 14A of the Exchange Listing Rules.

---

...

30. A listed issuer shall include details of any change in its auditors in any of the preceding three years.

...

### **Information to accompany interim reports**

37. ...

- (6) accounting policies and explanatory notes.

*37.4 A listed issuer should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements except where the change in accounting policy is required by an accounting standard which came into effect during the interim period. Accounting policies which have been consistently applied and which were disclosed in the listed issuer's most recent published audited financial statements or for a newly listed issuer in its recent prospectus may be omitted from the interim report. Any significant changes in accounting policies, including those required by an accounting standard, should be disclosed together with the reason for changing the accounting policy.*

38. Except where a change in accounting policy is required by an accounting standard issued during the interim period, a listed issuer must prepare its interim report in accordance with the same accounting standards that it adopted in the preparation of its most recent published annual financial statements or for a newly listed company in its prospectus. Where there have been any significant departure from such accounting standards, then the listed issuer shall include a statement setting out particulars of, and reasons for, the departure. A listed issuer should comply with the relevant standard on interim reporting in respect of its half-year reports in accordance with the requirements under HKFRS, IFRS or CASBE which is adopted for the preparation of that prepares its annual financial statements, in accordance with Hong Kong Financial Reporting Standards should comply with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" in respect of its interim report. A listed issuer that prepares its annual financial statements in accordance with International Financial Reporting Standards should comply with International Accounting Standard 34 "Interim Financial Reporting" in respect of its interim report.

..."

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## PART B – GEM LISTING RULES

>>>

### “INTERPRETATION

1.01 Throughout this book, the following terms, save where the context otherwise requires, have the following meanings:

...

<b><u>“China Accounting Standards for Business Enterprises” or “CASBE”</u></b>	<u>financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance</u>
<b><u>“China Auditing Standards” or “CAS”</u></b>	<u>standards and interpretations issued by the China Auditing Standards Board of the China Ministry of Finance</u>
<b>“Hong Kong Financial Reporting Standards” or “HKFRS”</b>	<u>financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They <del>or “HKFRS”</del> comprise (i) Hong Kong Financial Reporting Standards, (ii) Hong Kong Accounting Standards (formerly Statement of Standard Accounting Practice), and (iii) Interpretations</u>
<b>“International Financial Reporting Standards” or “IFRS”</b>	<u>financial reporting standards and interpretations approved by the International Accounting Standards Board (“IASB”), <del>or “IFRS”</del> and includes all International Accounting Standards (“IAS”) and interpretations issued under the former International Accounting Standards Committee (“IASC”) from time to time</u>
<b><u>“International Standards on Auditing” or “ISA”</u></b>	<u>standards and interpretations issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants</u>
<b><u>“practising accountant”</u></b>	<u>an individual, firm or company qualified for appointment as an auditor or reporting accountant of a company</u>
<b>“professional accountant”</b>	<u>a person registered as a professional accountant under the Professional Accountants Ordinance</u>
<b>“reporting accountant”</b>	<u>the professional accountant or practising accountant who is responsible for the preparation of the accountants’ report included in a listing document or circular in accordance with Chapter 7</u>

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>>>

### Reporting accountants

7.02 All accountants' reports must normally be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants, provided that, in the case of a circular issued by a listed company in connection with the acquisition of an overseas company, the Exchange may be prepared to permit the accountants' report to be prepared by a firm of practising accountants which is not so qualified but which is acceptable to the Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

...

#### *Specific detail concerning financial information*

7.04 ...

(4) Segment information

The income statement and balance sheet shall, in addition to that information required by (1) to (2) immediately above, include segmental ~~the~~ information required by the accounting standards adopted for the preparation of its annual financial statements:—

- (a) ~~Statement of Standard Accounting Practice 26 segment reporting if the issuer prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~
- (b) ~~International Accounting Standard 14 reporting financial information by segment if the issuer prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS); or~~
- (c) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if the issuer prepares its annual financial statements in accordance with US GAAP; or~~
- (d) China Accounting Standards for Business Enterprises (CASBE).

*Note: The information required by this rule may be provided on the face of the income statement or the balance sheet, as appropriate, or in the notes to the financial statements.*

...



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### Requirements applicable in all cases

7.08 ...

- (2) the reporting accountants must express an opinion as to whether or not the relevant information gives, for the purposes of the accountants' report, a true and fair view of the results and cash flows for the period reported on and of the balance sheet as at the end of each of the period reported on;
- (3) the accountants' report must state that it has been prepared in accordance with the Auditing Guideline – Prospectuses and the reporting accountant (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants;
- (4) the reporting accountants must be named in the accountants' report; and
- (5) the accountants' report must be dated.

...

### Disclosure

7.11 The information to be disclosed in respect of rules 7.03, 7.09 and 7.10 must be in accordance with best practice which is at least that required to be disclosed in respect of those specific matters in the accounts of a company under the Companies Ordinance and ~~Hong Kong Financial Reporting Standards (HKFRS), or IFRS International Financial Reporting Standards~~ or CASBE in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements and, in the case of banking companies, the Financial Disclosure by Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority.

### Accounting standards

7.12 The financial history of results and the balance sheet included in the accountants' report must normally be drawn up in conformity with:-

- (a) Hong Kong Financial Reporting Standards (HKFRS); or
- (b) International Financial Reporting Standards (IFRS); or-
- (c) China Accounting Standards for Business Enterprises (CASBE) in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

*Notes: The issuer must apply one of these bodies of standards consistently and shall not change from one body of standards to the other.*

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11.12A(1) A new applicant or its group (excluding any associated companies, joint ventures and other entities whose results are recorded in the issuer's financial statements using the equity method of accounting or proportionate consolidation) must have an adequate trading record of at least two financial years comprising a positive cash flow generated from operating activities in the ordinary and usual course of business before changes in working capital and taxes paid. Such positive cash flow from operating activities carried out by the new applicant, or its group, that are to be listed, must be of at least HK\$20,000,000 in aggregate for the two financial years immediately preceding the issue of the listing document.

*Note: A statement of cash flow prepared using the indirect method for submission to the Exchange for the purpose of satisfying rule 11.12A must also be included in the prospectus for disclosure purpose, if it is not already included in the accountants' report. Details regarding cash flow statements prepared under the indirect method are further described under ~~Hong Kong Accounting Standard 7~~ the relevant accounting standard dealing with cash flow statements in accordance with HKFRS, IFRS or CASBE.*

>>>

## FINANCIAL INFORMATION

### *Accounting standards*

18.04 Annual accounts of a listed issuer are required, subject to rule 18.05 and rule 18.06, to conform with ~~either Hong Kong Financial Reporting Standards or International Financial Reporting Standards~~ HKFRS, or IFRS or CASBE in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

*Note: The issuer must apply one of these bodies of standards consistently and shall not normally change from one body of standards to the other unless there are reasonable grounds to justify such change. All reasons for any such change must be disclosed in the annual accounts.*

18.05 A listed issuer, which is also listed on the New York Stock Exchange or the Nasdaq National Market of the United States of America, may prepare annual accounts drawn up in conformity with Generally Accepted Accounting Principles in the United States of America ("US GAAP"), subject to the following:—

- (1) the listed issuer has adopted US GAAP for the purposes of reporting to shareholders on the New York Stock Exchange or the Nasdaq National Market of the United States of America;
- (2) a listed issuer already listed on the Exchange which subsequently obtains a listing on the New York Stock Exchange or the Nasdaq National Market of the United States of America and thereafter adopts US GAAP in place of ~~either of~~ the standards referred to in rule 18.04 in the preparation of its annual accounts will be required to compile a statement of the financial effect of material differences from ~~either of~~ the standards referred to in rule 18.04 in the first annual accounts in which US GAAP is adopted;

- 
- (3) a listed issuer which was permitted to adopt US GAAP on the basis that it is listed on the New York Stock Exchange or the Nasdaq National Market of the United States of America but is no longer so listed, will be required to revert to ~~either one~~ one of the relevant standards referred to in rule 18.04 for financial reporting purposes; and
  - (4) a listed issuer whose principal activity is property development and/or investment may not adopt US GAAP for financial reporting purposes.

18.06 Where the Exchange, in exceptional circumstances, allows the annual accounts of any overseas issuer to be drawn up otherwise than in conformity with ~~either~~ accounting standards referred to in rule 18.04 or with US GAAP in the circumstances set out in rule 18.05, the Exchange will normally require the annual accounts to contain a statement of the financial effect of the material differences (if any) and a summary of any material differences in disclosure (if any) from either ~~of the standards~~ HKFRS or IFRS referred to in rule 18.04.

...

*Information to accompany directors' reports and annual accounts*

18.08 A listed issuer shall include in its financial statements the segmental information required by the accounting standards adopted for the preparation of its annual financial statements:—

- (1) ~~Statement of Standard Accounting Practice 26 segment reporting if it prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~
- (2) ~~International Accounting Standard 14 reporting financial information by segment if it prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS); or~~
- (3) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP; or~~
- (4) China Accounting Standards for Business Enterprises (CASBE).

...

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18.09 ...

- (3) Where a listed issuer includes in its annual report particulars of a related party transaction or continuing related party transaction (as the case may be) in accordance with applicable accounting standards adopted for the preparation of its annual financial statements ~~the Statement of Standard Accounting Practice “Related Party Disclosures” or Hong Kong Accounting Standard “Related Party Disclosures”, as appropriate, issued by the Hong Kong Institute of Certified Public Accountants or applicable International Financial Reporting Standards,~~ a statement as to whether or not the transaction falls under the definition of “connected transaction” or “continuing connected transaction” (as the case may be) in Chapter 20. The listed issuer must also confirm whether or not it has complied with the disclosure requirements in accordance with Chapter 20.

...

- 18.20 A statement as to the reasons for any significant departure from accounting standards; ~~approved by the Hong Kong Institute of Certified Public Accountants, if the relevant accounts are drawn up in accordance with Hong Kong Financial Reporting Standards, or the International Accounting Standards Board, if the relevant accounts are drawn up in accordance with International Financial Reporting Standards or adopted by the listed issuer for the preparation of its annual financial statements.~~

...

### **Additional Disclosure for Financial Conglomerates**

18.37A ...

(4) ...

- (b) Segmental information

Where a geographical segment of the financial business represents 10% or more of the listed issuer’s whole business, then that segment should be further analysed.

*Notes: 1 Listed issuers should provide the information as required by paragraph 18.37(A)(1)(j) in accordance with rule 18.08.*

- 2 For disclosure purposes, listed issuers may use different terms to those prescribed in rules 18.37A(2)(b) and (d) provided that the meaning of alternative terms is made clear and the accounting treatment adopted conforms to the requirements to disclose segmental information under the accounting standards adopted by the issuers for the preparation of its annual financial statements set out in accordance with:*

- 
- (a) ~~Statement of Standard Accounting Practice 24 “Accounting for investment in securities” if the listed issuer prepares its financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~
- (b) ~~International Accounting Standards 32 “Financial Instruments: Disclosure and Presentation” and 39 “Financial Instruments: Recognition and Measurement” if the listed issuer prepares its financial statements in accordance with International Financial Reporting Standards (IFRS); or~~
- (c) ~~the relevant accounting standards dealing with accounting treatment for investment in securities in the Generally Accepted Accounting Principles in the United States of America (US GAAP) if the listed issuer prepares its financial statements in accordance with US GAAP.; or~~
- (d) China Accounting Standards for Business Enterprises (CASBE).

...

*Content of Preliminary Announcement*

18.50B ...

(3) Segment information

The income statement and balance sheet of a listed issuer shall, in addition to that information required by rules 18.50B(1) and (2), include the segmental information required by the accounting standards adopted by the issuer for the preparation of its annual financial statements:—

- (a) ~~Statement of Standard Accounting Practice 26 segment reporting if it prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~
- (b) ~~International Accounting Standard 14 reporting financial information by segment if it prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS); or~~
- (c) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP.; or~~
- (d) China Accounting Standards for Business Enterprises (CASBE).

...

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*Content of half-year reports*

18.55 ...

(9) ...

*Notes: 1*

~~An issuer that prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards should comply with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” the relevant standard on interim reporting in respect of its half-year reports in accordance with the requirements under HKFRS, IFRS, US GAAP or CASBE which is adopted for the preparation of its annual financial statements. An issuer that prepares its annual financial statements in accordance with International Financial Reporting Standards should comply with International Accounting Standard 34 “Interim Financial Reporting” in respect of its half-year reports.~~

...

- 5 A listed issuer should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements except where the change in accounting policy is required by an accounting standard which came into effect during the interim period. Accounting policies which have been consistently applied and which were disclosed in the listed issuer’s most recent published audited financial statements or for a newly listed issuer in its recent prospectus may be omitted from the half-year reports. Any significant changes in the accounting policies, including those required by an accounting standard, should be disclosed together with the reason for changing in the accounting policy.

...

*Banking companies*

18.80 ...

(3) As regards segment information

The income statement and balance sheet of a listed issuer shall, in addition to that information required by rules 18.80(1) and (2), include the segmental information required by the accounting standards adopted for the preparation of its annual financial statements:—

- (a) ~~Statement of Standard Accounting Practice 26 segment reporting if it prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS); or~~
- (b) ~~International Accounting Standard 14 reporting financial information by segment if it prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS); or~~

- 
- (c) ~~the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP.; or~~
- (d) China Accounting Standards for Business Enterprises (CASBE).

>>>

### Definitions

19.04 For the purposes of this Chapter:-

(1) ...

*Notes 2 (c) the issuer's format for reporting segmental information is in business segments, and its latest published annual financial statements have fully complied with the requirements of ~~Hong Kong Accounting Standard 14 or International Accounting Standard 14, as appropriate, which require, amongst others,~~ relevant accounting standards adopted for the preparation of its annual financial statements on reporting of segment revenue and segment expense.*

...

### Considerations

19.15 When calculating the consideration ratio:—

- (1) the value of the consideration shall be the fair value of the consideration determined at the date of the agreement of the transaction in accordance with applicable accounting standards adopted for the preparation of the listed issuer's annual financial statements. ~~Hong Kong Financial Reporting Standards, or International Financial Reporting Standards.~~ Normally, the fair value of the consideration should be the same as the fair value of the asset which is the subject of the transaction. Where there is a significant disparity between the fair value of the consideration and the fair value of the asset, the listed issuer must use the higher of the fair value of the consideration and the fair value of the asset as the numerator of the consideration ratio;

...

### *Figures used in total assets, profits and revenue calculations*

19.17 The profits (see rule 19.13) and revenue (see rule 19.14) figures to be used by a listed issuer for the basis of the profits ratio and revenue ratio must be the figures shown in its accounts. Where a listed issuer has discontinued one or more of its operating activities during the previous financial year and has separately disclosed the profits and revenue from the discontinued operations in its accounts in accordance with applicable accounting standards adopted for the preparation of its annual financial statements, ~~Hong Kong Financial Reporting Standards, or International Financial Reporting Standards,~~ the Exchange may be prepared to accept the exclusion of such profits and revenue for the purpose of the profits ratio and revenue ratio respectively.

...

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19.19 In calculating total assets, the Exchange may require the inclusion of further amounts where contingent assets are involved.

*Note: Contingent assets normally refer to assets that will have to be acquired by a listed issuer pursuant to an agreement upon occurrence or non-occurrence of certain event(s) after the listed issuer has entered into the agreement. Such event(s) is/are normally beyond the control of the listed issuer and the parties to the transaction. Contingent assets must be determined in accordance with applicable accounting standards adopted for the preparation of the listed issuer's annual financial statements. ~~Hong Kong Financial Reporting Standards or International Financial Reporting Standards.~~*

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**ISSUERS INCORPORATED  
IN THE PEOPLE'S REPUBLIC OF CHINA**

**Preliminary**

25.01 ...

(3) The purpose of this Chapter is to clarify that the GEM Listing Rules apply as much to PRC issuers as they do to Hong Kong and other overseas issuers, subject to the additional requirements, modifications and exceptions set out or referred to in this Chapter. Among such requirements are that (a) PRC issuers are expected to present their annual accounts in accordance with HKFRS, IFRS or CASBE; (b) the articles of association of PRC issuers must contain provisions which will reflect the different nature of domestic shares and overseas listed foreign shares (including H shares) and the different rights of their respective holders; and (c) disputes involving holders of H shares and arising from a PRC issuer's articles of association, or from any rights or obligations conferred or imposed by the Company Law and any other relevant laws and regulations concerning the affairs of the PRC issuer, are to be settled by arbitration in either Hong Kong or the PRC at the election of the claimant.

...

25.02 In circumstances where the PRC issuer is or is to be listed on another stock exchange as well as on GEM, the provisions of the GEM Listing Rules, unless otherwise stated, apply in their entirety, save for any additional requirements, modifications and exceptions set out in this Chapter (or elsewhere in the GEM Listing Rules). The Exchange reserves the right, on a case by case basis, to waive or modify any requirement of the GEM Listing Rules relating to a PRC issuer if it is or is to be listed on another regulated, regularly operating, open stock exchange in respect of which the standards of protection for shareholders and investors are at least equivalent to those afforded pursuant to the GEM Listing Rules.

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*Annual report and accounts and auditors' report*

- 25.24 The following modifications and additional requirements apply to Chapter 18 and to the extent such modifications and additional requirements conflict with the provisions of Chapter 18, the following provisions shall apply.
- 25.25 The annual accounts must be audited by a person, firm or company who must be a practising accountant of good standing. Such person, firm or company must also be independent of the PRC issuer to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the statements on independence issued by the International Federation of Accountants and must be:—
- (1) qualified under the Professional Accountants Ordinance for the appointment as an auditor of a company; or
  - (2) a firm of practising accountants acceptable to the Exchange which has an international name and reputation and is a member of a recognised body of accountants; or
  - (3) a firm of practising accountants acceptable to the Exchange which is a joint venture approved or otherwise permitted by the China Securities Regulatory Commission or other competent authority in the PRC to act as an auditor of a listed company in the PRC and at least one of whose principal joint venture partners is either qualified under (1) or acceptable under (2); or
  - (4) a firm of practising accountants which has been approved by the China Ministry of Finance and the China Securities Regulatory Commission as being suitable to act as an auditor or a reporting accountant for a PRC incorporated company listed in Hong Kong.
- 25.26 The accounts must be audited to a standard comparable to that required ~~by the in Hong Kong Institute of Certified Public Accountants or by the International Auditing and Assurance Standards Board of the International Federation of Accountants~~ or under International Standards on Auditing or China Auditing Standards.
- 25.27 The report of the auditors must be annexed to all copies of the annual accounts required to be sent by the PRC issuer and indicate whether in the opinion of the auditors the accounts give a true and fair view:
- (1) in the case of the issuer's balance sheet, of the state of its affairs at the end of the financial year and in the case of the issuer's profit and loss account, of the profit or loss and in the case of the issuer's cash flow statement, of the cash flows for the financial year; and
  - (2) in the case where consolidated accounts are prepared, of the state of affairs, the profit or loss and the cash flows of the issuer and the group of which the issuer is the holding company.

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25.28 The report of the auditors must indicate the act, ordinance or other legislation in accordance with which the annual accounts have been drawn up and the authority or body whose auditing standards have been applied.

25.29 If the PRC issuer is not required to draw up its accounts so as to give a true and fair view but is required to draw them up to an equivalent standard, the Exchange may allow its accounts to be drawn up to that standard. Reference must, however, be made to the Exchange.

...

25.44 References in Chapter 19 to an issuer's "accounts" shall mean, in the case of a PRC issuer, the latest published audited accounts or consolidated accounts of such PRC issuer which have been prepared in accordance with either Hong Kong Financial Reporting Standards, or International Financial Reporting Standards or China Accounting Standards for Business Enterprises as provided for in rule 18.04.

>>>

## CONTINUING OBLIGATIONS

### *Accounting standards*

31.40 Annual accounts of a listed issuer are required, ~~subject to rule 18.05,~~ to conform with ~~either Hong Kong Financial Reporting Standards, or International Financial Reporting Standards~~ the requirements as to accounting standards set out in rules 18.04 to 18.06.

...

### *Annual report and accounts and auditors' report*

31.43 The accounts must be audited to a standard comparable to that required ~~by the in Hong Kong Institute of Certified Public Accountants or by the International Auditing and Assurance Standards Board of the International Federation of Accountants~~ or under International Standards on Auditing or China Auditing Standards.

...

### *Information to accompany directors' report and annual accounts*

31.56 A statement as to the reasons for any significant departure from the accounting standards adopted for the preparation of the issuer's annual financial statements. ~~Hong Kong Financial Reporting Standards, or International Financial Reporting Standards.~~

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## **APPENDIX 7**

# **PERSONAL INFORMATION COLLECTION AND PRIVACY POLICY STATEMENT**

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### **Provision of Personal Data**

1. Your supply of Personal Data to HKEx is on a voluntary basis. “Personal Data” in these statements has the same meaning as “personal data” in the Personal Data (Privacy) Ordinance, Cap 486, which may include your name, identity card number, mailing address, telephone number, email address, login name and/or our opinion.

### **Personal Information Collection Statement**

2. This Personal Information Collection Statement is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. It sets out the purposes for which your Personal Data will be used after collection, what you are agreeing to in respect of HKEx's use, transfer and retention of your Personal Data, and your rights to request access to and correction of your Personal Data.

### **Purpose of Collection**

3. HKEx may use your Personal Data provided in connection with this consultation paper for purposes relating to this consultation and for one or more of the following purposes:
  - administration, processing and publication of the consultation paper and any responses received;
  - performing or discharging HKEx's functions and those of its subsidiaries under the relevant laws, rules and regulations;
  - research and statistical purposes; and
  - any other purposes permitted or required by law or regulations.

### **Transfer of Personal Data**

4. Your Personal Data may be disclosed or transferred by HKEx to its subsidiaries and/or regulator(s) for any of the above stated purposes.
5. To ensure that the consultation is conducted in a fair, open and transparent manner, any response together with your name may be published on an “as is” basis, in whole or in part, in document form, on the HKEx website or by other means. In general, HKEx will publish your name only and will not publish your other Personal Data unless specifically required to do so under any applicable law or regulation. If you do not wish your name to be published or your opinion to be published, please state so when responding to this paper.

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## Access to or Correction of Data

6. You have the right to request access to and correction of your Personal Data in accordance with the provisions of the Personal Data (Privacy) Ordinance. HKEx has the right to charge a reasonable fee for processing any data access request. Any such request for access to and/or correction of your Personal Data should be addressed to the Personal Data Privacy Officer of HKEx in writing by either of the following means:

By mail to: Personal Data Privacy Officer  
Hong Kong Exchanges and Clearing Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**Re: Consultation Paper on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong**

By email to: [pdpo@hkex.com.hk](mailto:pdpo@hkex.com.hk)

## Retention of Personal Data

7. Your Personal Data will be retained for such period as may be necessary for the carrying out of the above-stated purposes.

## Privacy Policy Statement

8. HKEx is firmly committed to preserving your privacy in relation to Personal Data supplied to HKEx on a voluntary basis. Personal Data may include names, identity card numbers, telephone numbers, mailing addresses, e-mail addresses, login names, opinion etc, which may be used for the stated purposes when your Personal Data are collected. The Personal Data will not be used for any other purposes without your consent unless such use is permitted or required by law or regulation.
9. HKEx has security measures in place to protect against the loss, misuse and alteration of Personal Data supplied to HKEx. HKEx will strive to maintain Personal Data as accurately as reasonably possible and Personal Data will be retained for such period as may be necessary for the stated purposes and for the proper discharge of the functions of HKEx and those of its subsidiaries.

