

HKEx LISTING DECISION

Cite as HKEx-LD54-5 (June 2006) (Updated for accounting and auditing standards reference in September 2009)

(Withdrawn in August 2015, superseded by GL82-15)

Summary	
Name of Parties	Company A – a Main Board listing applicant and together with its subsidiaries (the “ Group ”) Subsidiary A – a principal subsidiary of Company A whose shares were listed on a stock exchange in the PRC
Subject	Whether and how unaudited interim financial information of Subsidiary A should be included in the prospectus of Company A when Subsidiary A had published such information in accordance with the requirements of another exchange on which its shares were listed?
Listing Rule	Listing Rule 2.13
Decision	The Exchange required that: <ul style="list-style-type: none">• unaudited interim financial information of Subsidiary A should be included in the prospectus of Company A when, at the time of issue of the prospectus, Subsidiary A had published unaudited interim financial information that covered a more recent interim period than that required by the Listing Rules in accordance with the requirements of another exchange;• such unaudited interim financial information should be presented following the Exchange’s guidance given in respect of a previous case as set out in paragraph 7 of Listing Decision HKEx-LD54-4 published in June 2006; and• the third-quarter financial information of Subsidiary A prepared under PRC GAAP should be presented in accordance with paragraph 8 of this Listing Decision.

SUMMARY OF FACTS

1. The A-shares of Subsidiary A were listed on a stock exchange in the People's Republic of China (the "PRC"). Pursuant to the relevant regulation issued by the China Securities Regulatory Commission of the PRC, Subsidiary A was required to publish quarterly reports containing unaudited financial statements prepared in accordance with PRC GAAP within 30 days after the end of each financial quarter. Accordingly, in mid October 2004 Subsidiary A's published its latest unaudited third quarter financial information for the three months ended 30 September 2004 with comparative information for the three months ended 30 September 2003 prepared under PRC GAAP (the "**Q3 PRC Quarterly Financials**").
2. The accountants' report in the prospectus of Company A was only required by the Listing Rules to cover a period for the three years ended 31 December 2003 and the six months ended 30 June 2004. However, the unaudited 2004 third quarter financial information published by Subsidiary A would provide more updated financial position of the Group subsequent to the track record period and before the proposed date of the prospectus.

THE ISSUE FOR CONSIDERATION

3. Whether and how unaudited interim financial information of Subsidiary A should be included in the prospectus of Company A when Subsidiary A had published such information in accordance with the requirements of another exchange on which its shares were listed?

APPLICABLE LISTING RULE OR PRINCIPLE

4. Listing Rule 2.13 states that, amongst other things, a listing document must be prepared having regard to the following general principles:
 - (1) the information contained in the document must be clearly presented and in the plain language format specified or recommended by the Exchange and/ or the Commission from time to time; and
 - (2) the information contained in the document must be accurate and complete in all material respects and not be misleading or deceptive. In complying with this requirement , the issuer must not, among other things:-
 - (a) omit material facts of an unfavourable nature or fail to accord them with appropriate significance;
 - (b) present favourable possibilities as certain or as more probable than is likely to be the case;
 - (c) present projections without sufficient qualification or explanation;
or

- (d) present risk factors in a misleading way.
5. Reference is made to Listing Decision HKEx-LD54-4 published in June 2006 regarding the Exchange's guidance on presentation of unaudited interim financial information in an issuer's prospectus when the issuer had in accordance with the requirements of another exchange published unaudited interim financial information that covered a more recent interim period than that required by the Listing Rules. In particular, paragraph 7 of HKEx-LD54-4 states that:
7. Listing Rules for Main Board and GEM (collectively the "**Listing Rules**") require all material information to be included in an IPO prospectus. However, disclosure practices of new listing applicants that are already listed in another jurisdiction at the time of their listing in Hong Kong are not well established as there are few precedents. In order to standardize the disclosure requirements relating to financial information in Hong Kong IPO prospectuses with respect to new listing applicants that are listed in the PRC or another jurisdiction at the time of their listing in Hong Kong, the Exchange resolved that:
- a. Listing Rule 8.06 and GEM Listing Rule 11.11 should continue to be strictly enforced. Therefore the latest audited financial period reported on by the reporting accountants in all cases must have ended not more than six months before the date of the listing document.
 - b. In the case of a new listing applicant on either the Main Board or GEM listed in the PRC or another jurisdiction at the time of their Hong Kong listing:
 - (i) unaudited interim financial information must be included in a Hong Kong IPO Prospectus on a case specific basis for an individual company when, as of the date of the Prospectus, the company has published interim financial information that covers an interim period more recent than required by the Listing Rules, in accordance with the requirements of an exchange in another jurisdiction on which securities issued or guaranteed by the Company are listed;
 - (ii) the requirement to provide more current published financial information applies to any publication of financial information that includes, at minimum, revenue and income information, even if that information is not published as part of a complete set of financial statements;
 - (iii) each of the financial statements may be in condensed form as long as it contains the major line items from the latest audited financial statements and includes the major components of assets, liabilities, and equity (in the case of the balance sheet);

income and expenses (in the case of the income statement); and the major subtotals of cash flows (in the case of the cash flow statement);

- (iv) the interim financial information must include comparative statements for the same period of the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the year end balance sheet;
- (v) the interim financial information must include selected note disclosure that will provide an explanation of events and changes that are significant to an understanding of the changes in financial position and performance of the enterprise since the reporting date of the last audited financial information;
- (vi) the interim financial information included in the prospectus must be either: (1) reviewed by an independent auditor in accordance with the standards established by the Hong Kong Institute of Certified Public Accountants (the Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports”¹) or the International Auditing and Assurance Standards Board (International Standards on Review Engagements 2400 “Engagements to Review Financial Statements”), and a copy of the auditor’s interim review report must be provided in the prospectus; or (2) presented in a separate part of the accountants’ report in a manner conforming with applicable PRC accounting rules and regulations; and in any of the above cases there must also include a statement of the financial effect of material differences from either Hong Kong Financial Reporting Standards or International Financial Reporting Standards (“IFRS”), as contemplated by the Note to Main Board Listing Rule 19A.10 and GEM Rules 7.14 and 7.15; and
- (vii) whenever such current interim financial information is provided, the prospectus must:
 - describe any ways in which the accounting principles, practices and methods used in preparing that interim financial information vary materially from the principles, practices, and methods accepted in Hong Kong or under IFRS as the case may be; and
 - quantify any material variations, unless they are already quantified because they occur in other financial statements included in the prospectus.

THE ANALYSIS

6. In light of the requirements of Listing Rule 2.13 and the Exchange's guidance given in relation to a previous case, namely Listing Decision HKEx-LD54-4 published in June 2006 the Exchange was of the view that such guidance should be extended to the present case where Subsidiary A was required by the regulation of another jurisdiction to publish the Q3 PRC Quarterly Financials.

THE DECISION

7. The Exchange required that:
 - unaudited interim financial information of Subsidiary A should be included in the prospectus of Company A when, at the time of issue of the prospectus, Subsidiary A had published unaudited interim financial information that covered a more recent interim period than that required by the Listing Rules in accordance with the requirements of another exchange; and
 - such unaudited interim financial information should be presented following the Exchange's guidance given in respect of a previous case as set out in paragraph 7 of Listing Decision HKEx-LD54-4 published in June 2006.
8. Company A satisfied the Exchange's requirement by presenting the following information in the prospectus:
 - a. a set of the Q3 PRC Quarterly Financials prepared by the directors of Subsidiary A;
 - b. a reconciliation statement ("**Reconciliation Statement**") prepared by the directors of Company A to reconcile the amounts of net profit and shareholders' equity indicated in the Q3 PRC Quarterly Financials to that prepared under Hong Kong GAAP²;
 - c. a statement prepared by the directors of Company A discussing the major adjustments and restatements made to the Q3 PRC Quarterly Financials and a footnote disclosure of the major reconciling items in the Reconciliation Statement; and
 - d. a review report prepared by the reporting accountants on the Q3 PRC Quarterly Financials and the Reconciliation Statement according to SAS 700.

Notes:

1. *Now known as Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". (Added in September 2009)*

2. *Rule 4.11 requires that the financial history of results and the balance sheet included in the accountants' report must normally be drawn up in conformity with Hong Kong Financial Reporting Standards (HKFRS). (Added in September 2009)*