[Withdrawn in April 2019; Superseded by HKEX-GL102-19]

Summary	
Name of Parties	Company A and its subsidiaries (the "Group") - a GEM listing applicant
	Company B – Company A's parent company and a GEM listed issuer
Subject	Presentation of financial information in Company A's prospectus and subsequent financial reports
Listing Rules	GEM Rules 7.08(3) & 7.13
Decision	Company A must include a HKFRS Reconciliation Statement in the accountants' report of the Group for inclusion in Company A's prospectus but need not do so in its subsequent financial reports

Summary of Facts

Company A was incorporated in the Cayman Islands. Company A applied for dual listing on the GEM Board of the Exchange and the Nasdaq National Market of the United States of America ("Nasdaq").

Company A was a wholly owned subsidiary of Company B. Company A's listing application involved a spin-off from Company B which required approval from the shareholders of Company B.

Company A would be adopting Generally Accepted Accounting Principles in the United States of America ("US GAAP") for preparation of its accountants' report to be included in its prospectus and subsequent financial reports. Company B prepared its financial statements under Hong Kong Financial Reporting Standards ("HKFRS").

Questions Presented

1.   Was a quantitative disclosure of differences between HKFRS and US GAAP (a "HKFRS Reconciliation Statement") required in the prospectus of Company A?

2.   Was a HKFRS Reconciliation Statement required in subsequent financial reports?

Applicable Listing Rules

GEM Rule 7.08(3) provides that 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 Society of Accountants.

GEM Rule 7.13 specifically allows a GEM listing applicant with a primary listing or a dual listing on the New York Stock Exchange or the Nasdaq to adopt US GAAP for its accountants' report in the prospectus upon satisfaction of certain conditions.

Adoption of US GAAP in the Prospectus

Analysis

The Exchange recognised that there was no requirement under the GEM Rules for preparation of a reconciliation of the differences between US GAAP and HKFRS in a prospectus. However, the Exchange noted that Company B prepared its accounts in accordance with HKFRS. The Exchange therefore considered it important that Company B's shareholders should be provided with information on the significant differences between US GAAP and HKFRS in the shareholders' circular being prepared in connection with the spin-off proposal. As Company B's shareholders' circular and Company A's prospectus would be available to the public within a relatively short period of time, it would not be appropriate for material information regarding Company A to appear in the shareholders' circular but not Company A's prospectus. Therefore, in light of the facts and circumstances of the case, the Exchange required a HKFRS Reconciliation Statement to be included in Company A's prospectus.

Decision

The HKFRS Reconciliation Statement must be sent to the shareholders of Company B as part of the information to be included in the spin-off document for the purpose of obtaining shareholders' consent to the spin-off. Company A's prospectus must also include the HKFRS Reconciliation Statement in the accountants' report.

Adoption of US GAAP in Subsequent Financial Reports

Analysis

The Exchange recognised that there was no GEM Listing Rule requirement for disclosure of the differences between US GAAP and HKFRS in the financial reports of a company which satisfied the requirements of GEM Listing Rule 7.13. Therefore, the Exchange determined that Company A was not required to prepare a HKFRS Reconciliation Statement to reconcile the differences between US GAAP and HKFRS on a continuing basis in the future.

Decision

Company A was not required to include a HKFRS Reconciliation Statement in its subsequent financial reports, provided that Company A continued to satisfy the requirements of GEM Listing Rule 7.13.