

HKE_x LISTING DECISION
Cited as HKE_x-LD47-2 (July 2005)

[Withdrawn in April 2019; Superseded by HKEX-GL45-12]

Summary	
Name of Party	Company A - a Main Board listing applicant and its subsidiaries (the “Group”)
Subject	Whether the minimum revenue requirement under Listing Rule 8.05(2)(e) could be satisfied by reference to the latest unaudited pro forma combined financial information of the Group which was reorganised from separate groups of entities under respective shareholders during the track record period ?
Listing Rules	Listing Rules 8.05(2) (e); 4.28 and 4.29
Decision	The Exchange determined that the minimum revenue requirement of Listing Rule 8.05(2)(e) was satisfied by reference to the latest unaudited pro forma financial statements of the Group.

SUMMARY OF FACTS

1. Company A applied for listing on the Main Board pursuant to Listing Rule 8.05(2).
2. The Group was reorganised from three groups of subsidiaries held through Subsidiary X, Subsidiary Y and Subsidiary Z respectively for the purpose of listing. Before the reorganisation, these Subsidiaries had been separate entities held in majority by different groups of shareholders, Shareholder XX, Shareholder YY and Shareholder ZZ.
3. It was determined by the Exchange that, despite the lack of a single legal structure amongst these Subsidiaries throughout the track record period, these Subsidiaries were held under a common set of management, a common group of controlling shareholders. Consequently, the Exchange determined that these Subsidiaries could be viewed together as a group throughout the track record period. (See Listing Decision HKE_x-LD47-1)
4. According to the Listing Rules and the applicable accounting standards the financial information of the Group would be presented in the prospectus in two principal sets of financial accounts:

- a. the separate historical audited financial statements of each member of Company A (i.e. Subsidiary X, Subsidiary Y and Subsidiary Z) in accordance with Listing Rule 4.04; and
 - b. the unaudited pro forma combined financial information of Subsidiary X, Subsidiary Y and Subsidiary Z in accordance with Listing Rules 4.28 and 4.29.
5. The unaudited pro forma combined financial information of these Subsidiaries was reported on by the reporting accountants and produced as if the reorganisation had taken place at the beginning of the last financial year of the track record period, adjusting for the effect of the reorganisation (including, among others, the capitalisation of shareholders' loan and cash payment to respective shareholders as part of the reorganisation), and eliminating the intra-group balances.
 6. Based on such unaudited combined pro forma information, the Group recorded a revenue of not less than HK\$500 million from operating activities for the latest financial year of the track record period.
 7. Based on the historical audited accounts of Company A (i.e. comprising Subsidiary X, Subsidiary Y and Subsidiary Z), none of the Subsidiaries individually had the revenue for the latest financial year of the track record period of not less than HK\$500 million.

THE ISSUE RAISED FOR CONSIDERATION

8. Whether the minimum revenue requirement under Listing Rule 8.05(2)(e) could be satisfied by reference to the latest unaudited pro forma combined financial information of the Group which was reorganised from separate groups of entities under respective shareholders during the track record period?

APPLICABLE LISTING RULES OR PRINCIPLES

9. Listing Rule 8.05(2) states that:

‘[T]o meet the market capitalisation/revenue/cash flow test, a new applicant must satisfy each of the following:-

- (a) a trading record of not less than three financial years;
- (b) management continuity for at least the three preceding financial years;
- (c) ownership continuity and control for at least the most recent audited financial year;
- (d) a market capitalisation of at least HK\$2,000,000,000 at the time of listing;

- (e) revenue of at least HK\$500,000,000 for the most recent audited financial year; and
- (f) positive cash flow from operating activities carried out by the new applicant, or its group, that are to be listed of at least HK\$100,000,000 in aggregate for the three preceding financial years’.

10. Listing Rules 4.28 requires that:

‘[I]n the case of a new applicant (rule 4.01(1)) which has acquired or proposed to acquire any businesses or companies, which would at the date of application or such later date of acquisition before listing of the applicant be classified as a major subsidiary, since the date to which the latest audited accounts of the issuer have been made up, it must include in its listing document the pro forma financial information required under rule 4.29 in respect of the enlarged group (i.e. the new applicant, its subsidiaries and any businesses or companies acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up).’

11. Listing Rule 4.29 states that:

‘[W]here an issuer includes pro forma financial information in any document (whether or not such disclosure of pro forma financial information is required under the Exchange Listing Rules), that information must comply with rules 4.29(1) to (6) and a report in the terms of rule 4.29 (7) must be included in the relevant document.’

12. Listing Rule 4.29(7) states that:

‘[T]he pro forma financial information must be reported on in the document by the auditors or reporting accountants who must report that, in their opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the issuer; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to rule 4.29(1).’

THE ANALYSIS

13. *The Consultation Paper on Proposed Amendments to the Listing Rules relating to Initial Listing Criteria and Continuing Listing Obligations* published by the Exchange in July 2002 (the ‘Consultation Paper’) and the subsequent Consultation Conclusions published

- by the Exchange in January 2004 (‘Consultation Conclusions’) indicated that the new Listing Rule 8.05(2) was intended to cater for potential listing applicants that have generated substantial revenue and demonstrated a high degree of achievement in their industries.
14. The Consultation Paper considered the use of market capitalisation together with revenue and positive cash flow from operating activities as an indicator of the financial performance of a listing applicant. “Revenue” indicated whether the listing applicant’s business activities were steady so as to generate a constant flow of income, and only revenue that generated actual cash inflow was considered. “Positive cash flow from operating activities” indicated whether the listing applicant was a going concern and had sufficient working capital for its operations during the track record period. Subsequent to the Consultation Conclusion, alternative tests to the profit record requirement were introduced. These alternative tests, namely the Market Capitalisation/Revenue Test and Market Capitalisation/Revenue/Cash Flow Test, require a minimum revenue requirement of at least HK\$500 million for the new applicant's most recent audited financial year.
 15. Given the background to the introduction of minimum revenue test in the Listing Rules, the Exchange considered that the minimum revenue test was intended to be an objective standard based on the latest available financial information relating to a listing applicant. The policy underlying the Listing Rules also intends that such revenue information appear in the IPO prospectus so that it is publicly available to investors for review.
 16. When analysing the issue in consideration, the Exchange considered the following factors:
 - a. the plain meaning of Listing Rule 8.05(2)(e) indicated that the historical financial statements should be used to determine the relevant revenue figure for purposes of Listing Rule 8.05(2)(e);
 - b. Listing Rule 8.05(2)(e) suggested that revenue derived from the new applicant’s business as a whole should be considered; and
 - c. Company A was required by the Listing Rules to include in its prospectus a report prepared by the reporting accountants regarding the pro forma accounts of the combined Group for the latest financial year of the track record period. Such pro forma revenue figures opined on by the reporting accountants were separately supported by audited financial statements relating to each of the subsidiaries. Consequently, such pro forma figures could provide an objective indication of the Group’s business activities in the last financial year of the track record period and there was sufficient information to enable investors to arrive at an informed judgment of Company A.
 17. Based on the above and with regard to the analysis that the combined group comprising Subsidiary X, Subsidiary Y, Subsidiary Z was the subject of the analysis of management and ownership continuity under Listing Rules 8.05(2)(b) and 8.05(2)(c), the Exchange determined that the minimum revenue requirement of Listing Rule 8.05(2)(e) could be

satisfied by reference to the unaudited pro forma combined financial information of the Group.

THE DECISION

18. Based on the facts and circumstances of the case and the Exchange's analysis of the Listing Rules, the Exchange determined that the minimum revenue requirement of Listing Rule 8.05(2)(e) was satisfied by reference to the latest unaudited pro forma financial statements of the Group.