

**HKEX LISTING DECISION
HKEX-LD3-2011 (March 2011)**

(Withdrawn in April 2017; Superseded by the joint policy statement regarding the listing of overseas companies dated 27 September 2013)

Party	Company A - a Main Board applicant incorporated in Japan seeking a secondary listing on the Exchange
Issues	Whether to accept Japanese Generally Accepted Accounting Principles (JGAAP) for preparing the accountants' report for Company A's listing document and subsequent financial reports
Listing Rules and Regulations	Rules 4.11 and 19.39 Listing Decision HKEX-LD70-1
Decision	The Exchange decided that, subject to certain conditions, JGAAP with a reconciliation to IFRS could be used in the accountants' report for Company A's listing document and the subsequent financial reports

FACTS

1. Company A, incorporated in Japan and primary listed on two stock exchanges in Japan, sought a secondary listing on the Exchange.
2. Company A asked the Exchange to allow JGAAP for preparing the accountants' report for its listing document and the subsequent financial reports.
3. Company A submitted that:-
 - a. JGAAP was an accounting standard well recognized and accepted by the international investors participating in Japan's stock markets. Over 90% of companies listed on the Japan's stock markets adopted JGAAP;
 - b. The European Commission announced in 2008 that JGAAP was found to be equivalent to EU-endorsed IFRS on the provision that the Accounting Standards Board of Japan would continue its convergence activities. Japanese companies listed on EU markets were allowed to file their financial statements in accordance with JGAAP; and
 - c. It would set up procedures with a view to providing a full IFRS reconciliation in the next financial year (2011) and would adopt IFRS to present its financial statements for the first time in 2013. This timeline would be two years earlier than the expected timeline for the possible mandatory adoption of IFRS by listed companies in Japan.
4. Company A's listing document would disclose most of the differences between JGAAP and IFRS that would materially impact on its total assets, total liabilities, total equity

and net income/ (loss) for its track record period. However, it was not able to quantify the differences relating to its unlisted available-for-sale investments (**Unlisted AFS Investments**) over the 3 years track record period because JGAAP did not require fair value assessments for these investments, and it had not captured information at the material time for fair value measurement under IFRS. It would be unreliable to conduct a fair valuing exercise on a retrospective basis with the use of hindsight information.

5. To make up for the lack of the information on GAAP differences relating to these Unlisted AFS Investments, its listing document would include:
 - a. a description of the different accounting treatments for Unlisted AFS Investments between JGAAP and IFRS;
 - b. the impairment policy and assessment process together with the impairment amount for the Unlisted AFS Investments during the track record period in the “Financial Information” section;
 - c. the reasons the financial effect of GAAP differences for Unlisted AFS Investments could not be quantified during the track record period and a related warning statement in the “Risk Factors” section of the prospectus;
 - d. a description of the systems and procedures that would be put in place to enable it to quantify the financial impact of GAAP differences for Unlisted AFS Investments for the next financial year in the “Financial Information” section; and
 - e. a sensitivity analysis of how its net income/ (loss) might be affected by allowance for investment losses for the Unlisted AFS Investments in the “Risk Factors” and “Financial Information” sections.

APPLICABLE LISTING RULES, ACCOUNTING STANDARDS OR PRINCIPLE

6. 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:- (a) HKFRS; or (b) 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.
7. Rule 19.13 provides that the accountants’ report for an overseas issuer seeking a primary listing will normally be required to conform with the requirements on accounting standards in Rules 4.11 to 4.13.
8. Rule 19.39 requires the accountants’ report for an overseas issuer seeking a secondary listing to conform with accounting standards acceptable to the Exchange which will normally be (a) HKFRS, or (b) IFRS, or (c) generally accepted accounting principles in the United States of America (**US GAAP**). Where the Exchange allows reports to be drawn up otherwise than in conformity with these accounting standards, the Exchange may 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.

ANALYSIS

9. The Exchange has previously accepted accountants' reports of overseas issuers (both primary and secondary listings) prepared in conformity with accounting standards other than those specified under the Rules. In those cases, the Exchange considered that the GAAP differences applicable to the relevant companies were not material and required disclosure of material differences in the prospectus to enable investors to make informed assessments of the companies' historical financial performance. Alternative accounting standards accepted by the Exchange are: Singapore Financial Reporting Standards, Canadian GAAP and UK GAAP (see Listing Decision HKEX-LD70-1).
10. In determining whether to accept JGAAP in the accountants' report and subsequent financial reports, the Exchange considered:
 - a. **No upside gain recognised** – Company A had assessed the Unlisted AFS Investments at cost less impairment on a consistent basis under an established internal control system. IFRS also allows cost less impairment assessment for similar AFS Investments where fair value cannot be reliably measured. Both standards recognise the downside losses of these investments. Unlike IFRS which also recognises upside gain, JGAAP does not recognise the upside gain;
 - b. **Sufficient information for investors** – The proposed disclosure in the listing document could still give sufficient information to enable investors to make an informed assessment of Company A;
 - c. **Commitment to full IFRS convergence in the near future** – Company A was planning to set up infrastructure to conduct fair value assessment of the Unlisted AFS Investments. It undertook to present IFRS-compliant financial information in the near future (see paragraph 3.c) which would be ahead of schedule for Japan-listed companies; and
 - d. **Practical approach for Japan-listed companies** – JGAAP is widely adopted by Japan-listed companies. Acceptance of JGAAP on conditions accepted by the Exchange would be a practical approach to present material differences between JGAAP & IFRS.

CONCLUSION

11. The Exchange decided to accept JGAAP for preparing the accountants' report for its listing document and the subsequent financial reports on condition that:
 - a. Company A would include in its accountants' report and subsequent financial reports relevant IFRS reconciliations. It would also include in its accountants' report

- a summary of the material differences between JGAAP and IFRS which would have a material financial impact on Company A's total assets, total liabilities, total equity and net income/ (loss); and
 - a statement of the quantified financial effects of all material differences (except in relation to the Unlisted AFS Investments the effect of which was unquantifiable) between JGAAP and IFRS on Company A's total assets, total liabilities, total equity and net income/ (loss);
- b. Company A would fully commit to IFRS reconciliation for the next financial year-end (2011) and present full IFRS-compliant financial statements in the near future as proposed (2013); and
- c. Company A must revert to HKFRS or IFRS if it was no longer listed on Japan's stock exchanges.