

HKE_x LISTING DECISION
HKE_x-LD70 - 1 (July 2009) (Updated in April 2014)

Summary	
Party	Company A - a Main Board applicant incorporated in Singapore and primarily listed on the Singapore Exchange
Subject	Whether to permit certain Singaporean auditors to act as the reporting accountants in Company A's initial listing and as its auditors after listing? Whether to accept Singapore Financial Reporting Standards ('SFRS') for preparing the accountants' report in Company A's listing document and subsequent financial reports in Hong Kong?
Listing Rules	Rules 4.03, 19.14, 19.20 and paragraph 2 of Appendix 16
Decision	The Exchange decided that: <ul style="list-style-type: none"> a. no waiver of Rule 4.03 would be granted to enable the Singaporean auditors to act as Company A's reporting accountants in the initial listing document. However, the Singaporean auditors and auditors qualified under Professional Accountants Ordinance practising in the Hong Kong office of the same audit firm could act as joint reporting accountants; b. the Singapore auditors could continue to act as Company A's auditors after listing; and c. SFRS could be used in Company A's accountants' report and the subsequent financial reports subject to certain conditions.

SUMMARY OF FACTS

1. Company A, incorporated in Singapore and primarily listed on the Singapore Exchange, applied for a dual primary listing on the Main Board.
2. Company A proposed to engage a firm of Singaporean auditors to act:
 - a. at its initial listing, as the reporting accountants of the accountants' report prepared in accordance with Singapore Financial Reporting Standards ('SFRS');and
 - b. after listing, as the auditors of its financial statements prepared in accordance with SFRS. They proposed to prepare reconciliation statements with narrative description of the major differences between SFRS and International Financial Reporting Standards ('IFRS').

THE ISSUE RAISED FOR CONSIDERATION

3. Whether to permit certain Singaporean auditors to act as the reporting accountants in Company A's initial listing on the Exchange and as its auditors after listing?
4. Whether to accept Singapore Financial Reporting Standards ('**SFRS**') for preparing the accountants' report in Company A's listing document and subsequent financial reports in Hong Kong?

APPLICABLE LISTING RULES ACCOUNTING STANDARDS OR PRINCIPLE

Accountants' Report

5. Rule 4.03 requires all accountants' reports to 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 Ordinance¹ and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants ('**HKICPA**').
6. Rule 4.08(3) requires the accountants' report to state that it has been prepared according to the Auditing Guideline – Prospectuses and the reporting accountant (Statement 3.340) issued by HKICPA. Rule 19.13 states that the accountants' report will normally be required to conform to the accounting standards requirements set out in rules 4.11 to 4.13. Rules 4.11 to 4.13 require an accountants' report to conform to Hong Kong Financial Reporting Standards ('**HKFRS**') or IFRS.
7. In the case of an overseas issuer seeking a primary listing where the Exchange allows a report to be drawn up otherwise than in conformity with HKFRS or IFRS, Rule 19.14 requires the report to conform to accounting standards acceptable to the Exchange. In those cases the Exchange will normally require the report to contain a statement of the financial effect of the material differences (if any) from either HKFRS or IFRS.

Annual Reports and Interim Reports

8. Rule 19.20 requires the annual reports of an overseas issuer whose primary listing is or is to be on the Exchange to be audited by a practising firm of accountants *either* qualified under the Professional Accountants Ordinance *or* acceptable to the Exchange with an international name and reputation and which must be a member of a recognized body of accountants.
9. Notes 2.1 and 2.4 to paragraph 2 of Appendix 16 state that the annual accounts must conform to either HKFRS or IFRS and, if the overseas issuer's secondary listing is on the Exchange, it may prepare annual accounts under Generally Accepted Accounting Principles in the United States of America ('**US GAAP**').

¹ Retitled as the Companies Ordinance (Cap. 622) with effect from March 2014 (*Updated in April 2014*).

10. Note 2.6 to paragraph 2 of Appendix 16 states that 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 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 referred to in Note 2.1.
11. Paragraph 38 of Appendix 16 states that, except where a change in accounting policy is required by an accounting standard issued during the interim period, an 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.

THE ANALYSIS

12. The Exchange has not permitted auditors not qualified under the Professional Accountants Ordinance to act as the reporting accountants of an applicant seeking a primary listing.
13. In the cases below, the Exchange has accepted alternative accounting standards and auditor qualifications for accountants' reports in listing documents and other financial statements.

Case 1

14. The Exchange allowed a secondary issuer incorporated in Canada whose shares are primarily listed on the Toronto Stock Exchange to:
 - a. adopt the generally accepted accounting principles in Canada ('**Canadian GAAP**') for preparing the applicant's financial statements, subject to the inclusion of a statement of the financial effect of the material differences between Canadian GAAP and US GAAP which is one of the acceptable accounting standards for secondary issuers under Rule 19.39; and
 - b. engage a Canadian audit firm to act as its reporting accountants for preparing the accountants' report in its initial listing document and subsequent annual and interim accounts.

Case 2

15. In this case, the applicant was listed on the London Stock Exchange when it applied for a dual primary listing in Hong Kong. It requested a waiver of Rule 4.03 to allow auditors of an international audit firm who were registered under the Institute of Chartered Accountants in England and Wales but were not qualified under the Professional Accountants Ordinance to act as reporting accountants for its proposed listing in Hong Kong. The UK auditors did not have experience as reporting accountants in new listing applications on the Exchange.
16. The Exchange did not consider it appropriate to grant a waiver of Rule 4.03 but accepted the UK auditors and auditors qualified under the Professional Accountants Ordinance practising

in the Hong Kong office of the same audit firm to act as joint reporting accountants.

17. As the UK auditors were from a firm with an international name and reputation which was a member of a recognised body of accountants, the Exchange accepted them to act as the applicant's auditors to prepare its annual accounts after listing.
18. Furthermore, the Exchange allowed the applicant to present its financial statements under the generally accepted accounting practice in the United Kingdom ('**UK GAAP**') in its accountants' report and subsequent annual and interim accounts, subject to the inclusion of a statement of the financial effect of the material differences between UK GAAP and HKFRS (previously Generally Accepted Accounting Practice in Hong Kong).

Listing Decision HKEx-LD38-2

19. HKEx-LD38-2 reports a case where the applicant applied for a primary listing on the Main Board and a listing on the New York Stock Exchange. The Exchange allowed it to adopt US GAAP for preparing the accountants' reports subject to the inclusion of a reconciliation statement in its listing document and annual financial statements in a form which would facilitate investors' understanding of its financial performance for so long as it remained listed on the New York Stock Exchange.
20. Subsequent to HKEx-LD38-2, the Exchange allowed another Main Board applicant who applied for a primary listing on the Exchange and a simultaneous listing on NASDAQ to adopt US GAAP in its accountants' report and subsequent financial reports.

Factual Consideration

21. The qualification requirements of auditors for preparing annual accounts are less prescriptive in that the auditors need not be qualified under the Professional Accountants Ordinance (see Rule 19.20). As the Singaporean auditors were from a reputable firm of auditors which was a member of an internationally recognised accounting body, the Exchange would accept their appointment as Company A's auditors for preparing annual accounts.
22. However, a waiver of Rule 4.03 would be required to enable them to act as the reporting accountants in Company A's listing document. In determining whether a waiver should be granted, the Exchange took into consideration that:
 - a. the Exchange has not granted the requested waiver to any applicant seeking a primary listing in Hong Kong;
 - b. the Singaporean auditors in question did not have experience to act as reporting accountants in new listing applications on the Exchange.
22. In determining whether to accept SFRS in the accountants' report and subsequent financial reports, the Exchange considered the circumstances of Company A, in particular, that:
 - a. Company A's listing on the Singapore Exchange and the consistent use of SFRS in financial reporting which would be subject to review and supervision of the Singapore Exchange;

- b. the differences between SFRS and IFRS applicable to Company A would be insignificant; and
- c. the Singapore auditors would prepare the accountants' report in accordance with the auditing standards issued by the HKICPA as required under Rule 4.08(3).

THE DECISION

23. The Exchange decided that:

- a. no waiver of Rule 4.03 would be granted to enable the Singaporean auditors to act as Company A's reporting accountants in the initial listing document. However, the Singaporean auditors and auditors qualified under Professional Accountants Ordinance practising in the Hong Kong office of the same audit firm could act as joint reporting accountants;
- b. the Singapore auditors could act as Company A's auditors after listing; and
- c. SFRS could be used in Company A's accountants' report and the subsequent financial reports on the condition that:
 - (i) Company A would include in its accountants' report and subsequent financial reports a statement to reconcile the figures with IFRS, with a narrative description of the major differences in a form which would facilitate investors' understanding of its financial performance; and
 - (ii) Company A must revert to HKFRS or IFRS if it is no longer listed on the Singapore Exchange.