HKEx LISTING DECISION
HKEx-LD61-2013 (Published in April 2013) (Updated in July 2014, October 2019 (Rule amendments))

Summary	
Parties	Company A – a Main Board listed issuer JCEs – entities under the joint control of Company A and other venturers
Issue	Whether the Exchange would accept Company A's proposed alternative revenue ratio for classifying transactions under Chapters 14 and 14A
Listing Rules	Main Board Rules 14.20, 14A.80
Decision	The Exchange accepted the proposed alternative revenue ratio

FACTS

1. Company A manufactured and sold automobiles in the Mainland through various JCEs. At the time of new listing of Company A, the Exchange imposed certain post-listing conditions on it with a view to regulating the JCEs (including new JCEs established after listing) in a manner consistent with regulating subsidiaries under the Rules (see LD106-1 for guidance on the Exchange's framework to deal with issuers operating under a jointly controlled entity structure).

2. In the last financial year, Company A changed its accounting policy and accounted for the JCEs using the equity method of accounting. Before the change, Company A had recognized its investments in the JCEs using the proportionate consolidation method (that is, the group combined its share of the JCEs' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis).

3. As a result of the change in accounting policy, the revenue shown in Company A's latest published consolidated accounts ("**Published Revenue**") no longer included its share of the JCEs' revenue.

4. Company A submitted that as it operated its business under a jointly controlled entity structure, using the Published Revenue as the denominator for calculating the revenue ratio would produce anomalous results and would not properly reflect the materiality of a transaction to Company A.

5. It therefore proposed to adopt an alternative revenue ratio for classifying its transactions where the denominator would be the sum of the Published Revenue and its share of the JCEs' revenue, with adjustments to eliminate the revenue from transactions between the JCEs and Company A (or its subsidiaries) ("**Alternate Revenue**"). This would assimilate the group's revenue as if the JCEs were still accounted for using the proportionate consolidation method. The figures used to calculate the Alternative Revenue would be disclosed in Company A's published accounts.

APPLICABLE LISTING RULES

6. Main Board Rule 14.04(9) states that:

> "percentage ratios" means the percentage ratios set out in rule 14.07, and "assets ratio", "profits ratio", "revenue ratio", "consideration ratio" and "equity capital ratio" shall bear the respective meanings set out in rule 14.07;"

7. Main Board Rule 14.07(3) states that:

> "Revenue ratio — the revenue attributable to the assets which are the subject of the transaction divided by the revenue of the listed issuer (see in particular rules 14.14 and 14.17);"

8. Main Board Rule 14.14 states that:

> "Revenue" normally means revenue arising from the principal activities of a company and does not include those items of revenue and gains that arise incidentally. In the case of any acquisition or disposal of assets (other than equity capital) through a non wholly owned subsidiary, the revenue attributable to the assets being acquired or realised (and not the listed issuer's proportionate interest in such revenue) will form the numerator for the purpose of the revenue ratio (See also rule 14.17)."

9. Main Board Rule 14.17 states that:

> "The profits (see rule 14.13) and revenue (see rule 14.14) figures to be used by a listed issuer for the basis of the profits ratio and revenue ratio must be the figures shown in its accounts…"

10. Main Board Rule 14.20 states that:

> "The Exchange may, where any of the calculations of the percentage ratios produces an anomalous result or is inappropriate to the sphere of activity of the listed issuer, disregard the calculation and substitute other relevant indicators of size, including industry specific tests. The listed issuer must provide alternative tests which it considers appropriate to the Exchange for consideration."

11. Main Board Rule 14A.80 provides that:

> "If any percentage ratio produces an anomalous result or is inappropriate to the activity of the listed issuer, the Exchange may disregard the ratio and consider alternative test(s) provided by the listed issuer. The listed issuer must seek prior consent of the Exchange if it wishes to apply this rule."

12. Main Board Rule 14A.06(30) states that:

> "percentage ratios" has the meaning set out in rule 14.04(9);"

ANALYSIS

13. Rule 14.07 sets out five percentage ratios for assessing the impact of a transaction on a listed issuer. They form the basis for classifying the transaction which determines whether the transaction is subject to any disclosure and/or shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

14. The revenue ratio measures the materiality of a transaction by reference to the listed issuer's latest revenue figure as shown in the annual accounts.

15. Here the substantial decrease in revenue as shown in Company A's consolidated accounts was due to the change in accounting policy. There was no change in its principal business or operating model.

16. Company A's business was mainly carried out under a jointly control entity structure, and the JCEs were treated and regulated as if they were Company A's subsidiaries for the purpose of the Rules. When assessing the materiality of a transaction using the revenue ratio, it would be reasonable to take into account the group's share of the JCEs' revenue.

CONCLUSION

17. The Exchange accepted Company A's proposal to use the Alternative Revenue in place of the Published Revenue when calculating the revenue ratio.

Note: On 1 October 2019, Rules 14.20 and 14A.80 were amended to clarify that if any calculation of the percentage ratio produces an anomalous results or is inappropriate to the sphere of activities of the issuer, the Exchange (or the issuer) may apply an alternative size test that it considers appropriate to assess the materiality of a transaction under Chapters 14 and 14A.

The Rule amendments would not change the analysis and conclusion in this case.