**HKEx LISTING DECISION**
**HKEx-LD98-1 (July 2010)**

***[Withdrawn in April 2019; Superseded by HKEX-GL102-19]***

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| **Parties** | Company A – a Main Board listing applicant and its subsidiaries<br><br>JCE – an entity under the joint control of Company A and another venturer |
| **Issue** | How Company A should account for JCE in its future annual and interim reports upon change of accounting method from the proportionate consolidation to the equity |
| **Listing Rules** | Rules 4.11 and 4.12 |
| **Decision** | The Exchange considered Company A's proposal on presenting JCE's financial information in its annual and interim reports upon adoption of the equity accounting method acceptable as it would provide sufficient information on JCE to allow investors to appraise its financial position |

**FACTS**

1. Company A applied to list under Rule 8.05(3). Its business was principally operated by JCE. JCE was accounted for in its financial statements (drawn up under the Hong Kong Financial Reporting Standards (**HKFRS**)[1]) as a joint venture using the proportionate consolidation method.

2. Under HKFRS, jointly-controlled entities may be accounted for by the proportionate consolidation method or the equity method. However, HKFRS is expected to be amended to follow the amendments to International Accounting Standard 31 'Interest in Joint Ventures' (**IAS 31**)[2] to allow only the equity method for jointly-controlled entities.

3. Since the Hong Kong Institute of Certified Public Accountants had not yet announced the applicable standards for presenting information of jointly-controlled entities if HKFRS were to follow the amendments to IAS31, the Exchange had concerns that Company A's future financial statements might not

[1] HKFRS comprise (i) Hong Kong Financial Reporting Standards, (ii) Hong Kong Accounting Standards; and (iii) interpretations.
[2] The International Accounting Standards Board issued an 'Exposure Draft 9 Joint Arrangements' in September 2007 which would be followed by amendments to IAS 31. However, as this Listing Decision goes to print, the IASB has not yet published the amendments.

contain comparable information following changes in the methods to account for jointly-controlled entities.

**APPLICABLE LISTING RULES**

Listing Rules requirements

4. Rule 4.11 provides that the financial history of results and the balance sheet included in the accountants' report must normally be drawn up in conformity with:—

    (a) Hong Kong Financial Reporting Standards; or

    (b) International Financial Reporting Standards. Listed issuers and listing applicants, which adopt IFRS, are required:—
        (i) to disclose and explain differences of accounting practice between IFRS and HKFRS, which have a significant effect on their financial statements; and
        (ii) to compile a statement of the financial effect of any such material differences.

    Note: The issuer must apply one of these bodies of standards consistently and shall not change from one body of standards to the other.

5. Rule 4.12 provides that any significant departure from such accounting standards must be disclosed and explained and, to the extent practicable, the financial effects of such departure quantified.

HKFRS requirements:

6. Paragraph 3 of Hong Kong Accounting Standard 31 'Interest in Joint Ventures' (**HKAS 31**) states that:

    - Equity method is a method of accounting whereby an interest in a jointly-controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly-controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly-controlled entity.

    - Proportionate consolidation is a method of accounting whereby a venturer's share of each of the assets, liabilities, income, expenses of a jointly-controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statement.

7. A comparison of the different accounting methods for interests in jointly-controlled entities is set out below:-

| | Information presented | |
|---|---|---|
| | **Proportional consolidation** | **Equity method** |
| Income statement | Line-by-line basis for the group's proportionate share of jointly-controlled entities including revenue, cost of sales, gross profit, selling & administrative expenses, etc | Only a single line item showing the share of jointly-controlled entities' profits |
| Balance sheet | Line-by-line basis for the group's proportionate share of jointly-controlled entities including property, plant and equipment, land use rights, trade receivables, trade payables, etc | Only a single line item showing the share of jointly-controlled entities' net assets |
| Cash flow statement | Line-by-line basis for the group's proportionate share of jointly-controlled entities including cash generated from operations, changes in working capital, etc | Only dividend received from the jointly-controlled entities and amount due from/(to) jointly-controlled entities |

8. Paragraph 54 of HKAS 31 requires a venturer to disclose the aggregate amount of any contingent liabilities in relation to its interests in joint ventures, unless the probability of loss is remote, separately from the amount of other contingent liabilities.

9. Paragraph 55 of HKAS 31 requires a venturer to disclose the aggregate amount of any capital commitments in relation to its interests in joint ventures separately from the amount of other capital commitments.

10. Paragraph 56 of HKAS 31 requires a venturer who recognises its interests in joint ventures using the proportionate consolidation or the equity method to disclose the aggregate amounts of each of current assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures in a separate note to the financial statements.

**ANALYSIS**

11. Irrespective of the methods used to account for jointly-controlled entities, issuers' financial information must enable investors to easily understand their business,

financial position, management and prospects, etc. The Exchange encourages issuers to disclose financial information of material jointly-controlled entities (for example, revenue and key balance sheet items) in listing documents and annual reports beyond those required under the applicable accounting standards.

12. To address the Exchange's concern about the effect of the change of accounting method on presentation of financial information of jointly-controlled entities, Company A confirmed that even upon adoption of the equity method to account for JCE, Company A would provide sufficient information to enable investors to assess its operating results.

13. Company A proposed that:

a. in the "Summary", "Risk Factors" and "Financial Information" sections of its listing document, there would be disclosure on:

(i) the likely amendments to HKFRS on changes in accounting methods for jointly-controlled entities;

(ii) the potential impact of the changes in accounting methods for JCE on its financial statements; and

(iii) how it would disclose JCE's financial information in its annual and interim reports after adopting the equity accounting method (see b below);

b. in its annual or interim report following listing:

(i) in the management discussion and analysis section of the annual or interim report, the analysis of financial results would be presented at a similar level to what was presented in the "Financial Information" section of the listing document. That is, disclosure would focus on its key business drivers and include the analysis of its performance by segment and by key financial figures, such as revenue in terms of sales value and sales volume, cost of sales and gross profit margin; and

(ii) in a separate note to the financial information, there would be disclosures on:

- key financial information of JCE including aggregate amounts of current/non-current assets, current/non-current liabilities, total income and total expenses under HKFRS;

- JCE's capital commitment and contingent liabilities and its proportionate interest under HKFRS;

- key balance sheet items of JCE which Company A would consider appropriate, e.g. property, plant and equipment, inventories, trade and other receivables, short-term borrowings, trade and other payables and long-term borrowings, etc; and

- the prior year's comparative figures for all the above items.

**CONCLUSION**

14. The Exchange considered Company A's proposal on presenting JCE's financial information in its annual and interim reports upon adoption of the equity accounting method and considered it acceptable as it would provide sufficient information on JCE to allow investors to appraise its financial position.