

**HKEX LISTING DECISION
HKEX-LD38-2 (July 2004)**

(Withdrawn in April 2017; Superseded by the joint policy statement regarding the listing of overseas companies dated 27 September 2013)

Name of Party	Company A – a Main Board new listing applicant
Subject	Adoption of Generally Accepted Accounting Principles in the United States of America (“ US GAAP ”) for preparation of accountants’ reports
Listing Rules	<u>Accounting standard to be adopted in prospectus</u> Rules 4.11, 4.12, 4.13, 7.12 and 19.13 <u>Accounting standard to be adopted in subsequent financial reports</u> Rule 19.14; Appendix 16, paragraphs 2 Note 2.6 & 38
Decision	Company A was permitted to adopt US GAAP for its accountants reports subject to the inclusion of a reconciliation statement in its prospectus and in its annual financial statements in a form which would facilitate investors’ understanding of Company A’s financial performance and only for so long as Company A remained listed on the New York Stock Exchange

Summary of Facts

Company A was incorporated in the Cayman Islands and applied for dual listing on the New York Stock Exchange and the Exchange.

Questions Presented

Could US GAAP be adopted for preparation of the accountants’ report included in Company A’s prospectus and subsequent financial reports?

Adoption of US GAAP in the Prospectus

Applicable Listing Rules

Rule 19.13 of the Listing Rules states that “[r]eports will normally be required to conform with the requirements as to accounting standards set out in Rules 4.11 to 4.13”.

Rules 4.11 to 4.13 require conformity with:-

- (a) Hong Kong Financial Reporting Standards (“**HKFRS**”); or
- (b) International Financial Reporting Standards (“**IFRS**”).

Rule 19.14 states that, where the Exchange allows a report to be drawn up otherwise than in conformity with HKFRS or IFRS, the report will be required to conform with accounting standards acceptable to the Exchange. In such cases the Exchange will normally require the report to contain a statement of the financial effect of the material differences (if any) from either of the two accounting standards.

Rule 19.14 does not specify the circumstances under which the Exchange will accept an accountants' report that is drawn up in conformity with accounting standards other than HKFRS and IFRS. The rules are also silent on which accounting standards other than HKFRS and IFRS are acceptable to the Exchange.

GEM Listing Rule 7.13 specifically allows a GEM listing applicant with a primary listing or intending to have a dual listing on the New York Stock Exchange or the Nasdaq National Market of the United States of America to adopt US GAAP for the accountants' report in the prospectus upon satisfaction of certain conditions.

Analysis

The Exchange considered the following:-

- US GAAP had widespread international recognition. Work is being undertaken by relevant professional accountant bodies to achieve greater convergence between US GAAP and IFRS.
- A large number of international companies of similar size and in the same industry as that of Company A had adopted US GAAP as the basis for preparing their financial statements and the adoption of US GAAP would allow investors to make more meaningful comparisons.
- Company A was seeking a listing on the New York Stock Exchange and therefore its US GAAP accounts would be subject to sufficiently robust supervision by the relevant US regulatory framework.
- The draft reconciliation submitted by Company A in respect of its balance sheet and profit and loss accounts for its track record period showed that the differences between US GAAP and IFRS were insignificant.

Decision

Company A could adopt US GAAP for the preparation of the accountants' report included in its prospectus. Company A must also include a reconciliation statement in the accountants' report to show the financial effect of the material differences (if any) from either of HKFRS or IFRS.

Adoption of US GAAP in Subsequent Financial Reports

Applicable Listing Rules

With regard to annual reports, Note 2.6 of Paragraph 2 of Appendix 16 to the Listing Rules 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 HKFRS or IFRS, the Exchange will normally require that annual accounts contain a statement of the financial effect of the material differences (if any) from either of the two accounting standards.

With regard to interim reports, 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, a listed 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.

With regard to accountants' reports, Rule 19.14 states that, where the Exchange allows a report to be drawn up otherwise than in conformity with the standards approved by HKFRS or IFRS, the report will be required to conform with accounting standards acceptable to the Exchange. In such cases the Exchange will normally require the report to contain a statement of the financial effect of the material differences (if any) from either of the two accounting standards.

Analysis

The Exchange considered the particular facts and circumstances of the case, including those facts found relevant to its analysis of whether the adoption of US GAAP in the listing prospectus was appropriate. In light of such facts and the applicable Listing Rules, the Exchange determined that Company A would be allowed to continue to use US GAAP for financial accounting purposes after listing subject to the following:-

- Company A must include a reconciliation of its annual financial statements in accordance with IFRS in a form which would facilitate investors' understanding of its financial performance.
- Company A must revert to HKFRS or IFRS should it no longer be listed on the New York Stock Exchange.

Decision

Company A would be allowed to continue to use US GAAP for financial accounting purposes after listing subject to the following:-

- Company A must include a reconciliation of its annual financial statements in accordance with IFRS in a form which would facilitate investors' understanding of its financial performance.

- Company A must revert to HKFRS or IFRS should it no longer be listed on the New York Stock Exchange.