

## HKEx LISTING DECISION

Cite as HKEx-LD54-4 (June 2006) (Updated for accounting and auditing standards reference in September 2009)

*(Withdrawn in August 2015, superseded by GL82-15)*

<b>Summary</b>	
<b>Name of Party</b>	Company A – a Main Board listing applicant whose shares were also listed on a stock exchange in the PRC, and together with its subsidiaries (the “ <b>Group</b> ”)
<b>Subject</b>	Whether and how unaudited interim financial information should be included in the prospectus of Company A when Company A had published such information that covered a more recent interim period than that required by the Listing Rules in accordance with the requirements of another exchange on which its shares were listed?
<b>Listing Rule</b>	Listing Rule 2.13
<b>Decision</b>	<p>The Exchange required that:</p> <ul style="list-style-type: none"><li>• unaudited interim financial information should be included in the prospectus of Company A when, at the time of issue of the prospectus, it had published unaudited interim financial information that covered a more recent interim period than that required by the Listing Rules in accordance with the requirements of another exchange;</li><li>• such unaudited interim financial information should be presented in accordance with the Exchange’s guidance, the details of which are set out in paragraph 7 of this Listing Decision; and</li><li>• after listing and on an on-going basis, Company A should be required to publish a reconciliation statement to reconcile its quarterly results (prepared in accordance with PRC GAAP and published pursuant to the listing rules of another exchange) to Hong Kong GAAP<sup>1</sup>.</li></ul>

## SUMMARY OF FACTS

1. The A-shares of Company A were listed on a stock exchange in the People's Republic of China (the "PRC"). Pursuant to the relevant regulation issued by the China Securities Regulatory Commission of the PRC, Company A was required to publish quarterly reports containing unaudited financial statements prepared in accordance with PRC GAAP within 30 days after the end of each financial quarter. Accordingly, in October 2004 Company A's published its latest unaudited third quarter financial information for the three months ended 30 September 2004 with comparative information for the three months ended 30 September 2003 prepared under PRC GAAP.
2. The accountants' report in the prospectus of Company A was only required by the Listing Rules to cover a period for the three years ended 31 December 2003 and the six months ended 30 June 2004. The unaudited 2004 third quarter financial information published by Company A would provide a more updated financial position of Company A subsequent to the track record period and before the proposed date of the prospectus. The Exchange therefore proposed that Company A should include its unaudited third quarter financial information in the prospectus.
3. The sponsor provided the Exchange with several alternative methods for presenting such financial information. The Exchange noted that the most comprehensive option included the presentation of the following:
  - a. unaudited third quarter financial information of Company A prepared under PRC GAAP;
  - b. unaudited third quarter financial information of Company A prepared under Hong Kong GAAP<sup>1</sup>;
  - c. a review report on items a and b above prepared by the reporting accountants according to Statement of Auditing Standard 700 "Engagement to Review Interim Financial Reports" ("SAS 700");
  - d. discussion of the major differences between the PRC GAAP financial statements and the Hong Kong GAAP<sup>1</sup> financial statements; and
  - e. a brief discussion of Company A's financial performance in third quarter 2004 as compared to that in third quarter 2003 based on the financial information prepared under Hong Kong GAAP<sup>1</sup>.
4. The sponsor requested the Exchange to consider the above recommendation for the inclusion of the Company A's unaudited third quarter financial information in the prospectus.

## **THE ISSUE FOR CONSIDERATION**

5. Whether and how unaudited interim financial information should be included in the prospectus of Company A when Company A had published such information that covered a more recent interim period than that required by the Listing Rules in accordance with the requirements of another exchange on which its shares were listed?

## **APPLICABLE LISTING RULE OR PRINCIPLE**

6. Listing Rule 2.13 states that, amongst other things, a listing document must be prepared having regard to the following general principles:
  - (1) the information contained in the document must be clearly presented and in the plain language format specified or recommended by the Exchange and/ or the Commission from time to time; and
  - (2) the information contained in the document must be accurate and complete in all material respects and not be misleading or deceptive. In complying with this requirement , the issuer must not, among other things:-
    - (a) omit material facts of an unfavourable nature or fail to accord them with appropriate significance;
    - (b) present favourable possibilities as certain or as more probable than is likely to be the case;
    - (c) present projections without sufficient qualification or explanation; or
    - (d) present risk factors in a misleading way.

## **THE ANALYSIS**

7. The Listing Rules for Main Board and GEM (collectively the “**Listing Rules**”) require all material information to be included in an IPO prospectus. However, disclosure practices of new listing applicants that are already listed in another jurisdiction at the time of their listing in Hong Kong are not well established as there are few precedents. In order to standardise the disclosure requirements relating to financial information in Hong Kong IPO prospectuses with respect to new listing applicants that are listed in the PRC or another jurisdiction at the time of their listing in Hong Kong, the Exchange resolved that:
  - a. Listing Rule 8.06 and GEM Listing Rule 11.11 should continue to be strictly enforced. Therefore the latest audited financial period reported on by the reporting accountants in all cases must have ended not more than six months before the date of the listing document.

- b. In the case of a new listing applicant on either the Main Board or GEM listed in the PRC or another jurisdiction at the time of their Hong Kong listing:
- (i) unaudited interim financial information must be included in a Hong Kong IPO prospectus on a case specific basis for an individual company when, as of the date of the prospectus, the company has published interim financial information that covers an interim period more recent than required by the Listing Rules, in accordance with the requirements of an exchange in another jurisdiction on which securities issued or guaranteed by the company are listed;
  - (ii) the requirement to provide more current published financial information applies to any publication of financial information that includes, at minimum, revenue and income information, even if that information is not published as part of a complete set of financial statements;
  - (iii) each of the financial statements may be in condensed form as long as it contains the major line items from the latest audited financial statements and includes the major components of assets, liabilities, and equity (in the case of the balance sheet); income and expenses (in the case of the income statement); and the major subtotals of cash flows (in the case of the cash flow statement);
  - (iv) the interim financial information must include comparative statements for the same period of the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the year end balance sheet;
  - (v) the interim financial information must include selected note disclosure that will provide an explanation of events and changes that are significant to an understanding of the changes in financial position and performance of the enterprise since the reporting date of the last audited financial information;
  - (vi) the interim financial information included in the prospectus must be either: (1) reviewed by an independent auditor in accordance with the standards established by the Hong Kong Institute of Certified Public Accountants (the Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports”<sup>2</sup>) or the International Auditing and Assurance Standards Board (International Standards on Review Engagements 2400 “Engagements to Review Financial Statements”), and a copy of the auditor’s interim review report must be provided in the prospectus; or (2) presented in a separate part of the accountants’ report in a manner conforming with applicable PRC accounting rules and regulations; and in any of the above cases there must also include a statement of the financial effect of material differences from either Hong Kong Financial Reporting Standards or International Financial

Reporting Standards (“**IFRS**”), as contemplated by the Note to Main Board Listing Rule 19A.10 and GEM Rules 7.14 and 7.15; and

- (vii) whenever such current interim financial information is provided, the prospectus must:
- describe any ways in which the accounting principles, practices and methods used in preparing that interim financial information vary materially from the principles, practices, and methods accepted in Hong Kong or under IFRS as the case may be; and
  - quantify any material variations, unless they are already quantified because they occur in other financial statements included in the prospectus.
8. In light of the Exchange’s guidance given in paragraph 7, the Exchange was of the view that such guidance should be followed in the present case as a minimum.
9. Comparing the sponsor’s suggestion described above in paragraph 3 with the Exchange’s guidance described in paragraph 7, the Exchange noted that the sponsor’s suggestion would involve additional unaudited third quarter financial information of the Company prepared under Hong Kong GAAP<sup>1</sup> as well as management discussion on its performance in third quarter 2004 as compared to that in third quarter 2003 based on the financial information prepared under Hong Kong GAAP<sup>1</sup>.
10. In considering the appropriateness of these further disclosures, the Exchange was of the view that audited financial information should be included in the listing document to the greatest extent possible. Accordingly, the selective disclosure of unaudited financial information prepared under Hong Kong GAAP<sup>1</sup> was not acceptable to the Exchange. The inclusion of the management discussion was not objectionable.
11. Under existing Listing Rules, the Exchange noted that once Company A was listed it would not be required to produce any reconciliation statement to reconcile its quarterly results prepared in accordance with PRC GAAP to Hong Kong GAAP<sup>1</sup>. However, the Exchange was of the view that publishing quarterly results in accordance with PRC GAAP without reconciling it with Hong Kong GAAP<sup>1</sup> would potentially be misleading for investors. As such, the Exchange determined to require Company A to publish a reconciliation statement to reconcile its quarterly results prepared under PRC GAAP to Hong Kong GAAP<sup>1</sup> on a on-going basis after listing.

## THE DECISION

12. The Exchange required that:

- unaudited interim financial information should be included in the prospectus of Company A when, at the time of issue of the prospectus, it had published unaudited interim financial information that covered a more recent interim period than that required by the Listing Rules in accordance with the requirements of another exchange;
- such unaudited interim financial information should be presented in accordance with the guidance given by the Exchange, details of which are set out above in paragraph 7; and
- after listing and on an on-going basis, Company A should be required to publish a reconciliation statement to reconcile its quarterly results (prepared in accordance with PRC GAAP and published pursuant to the listing rules of another exchange) to Hong Kong GAAP<sup>1</sup>.

*Notes:*

1. *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 Hong Kong Financial Reporting Standards (HKFRS). (Added in September 2009)*
2. *Now known as Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". (Added in September 2009)*