



HKEX
香港交易所

The Stock Exchange of Hong Kong Limited

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

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1 March 2013

To: Main Board Listed Issuers (Attn: Authorised Representatives)
GEM Listed Issuers (Attn: Authorised Representatives)
Market practitioners

Dear Sirs

Rule implications arising from the adoption of Hong Kong Financial Reporting Standard 10 / International Financial Reporting Standard 10

Purpose and background

We issue this letter to assist issuers with their compliance with the Rules following the adoption of the Hong Kong Financial Reporting Standard (**HKFRS**) / International Financial Reporting Standard (**IFRS**) 10 entitled “*Consolidated Financial Statements*”.

HKFRS / IFRS 10 were issued in 2011 and are effective for annual periods beginning on or after 1 January 2013. HKFRS / IFRS 10 set out new requirements and guidance on the principle of control for determining which entities are to be consolidated in the issuers’ consolidated financial statements. An investee, which was not previously classified as a subsidiary of the issuer, may be accounted for as a subsidiary under HKFRS / IFRS 10 (**new subsidiary**).

The Rules govern the activities of the issuer group, including its subsidiaries. Under Rule 1.01, a subsidiary of an issuer includes any entity which is consolidated into the consolidated financial statements of the issuer as a subsidiary under the HKFRS or IFRS. As a result, the adoption of HKFRS / IFRS 10 may have practical implications for issuers’ compliance with the Rules.

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Financial Statements

HKFRS / IFRS 10 are effective for annual periods beginning on or after 1 January 2013. The accounting standards require an issuer to disclose an assessment of the financial impact of HKFRS / IFRS 10 on its accounts once this assessment is made¹. For issuers with financial year ends on 31 December, we expect that these issuers will disclose this information in their 31 December 2012 financial statements.

When an issuer implements the new accounting standard in its first set of accounts in 2013, it is required under HKFRS / IFRS 10 to restate its comparative figures for 2012 in the accounts, and include a reconciliation from the previously reported figure to the restated figure for each financial statement line item affected. For issuers with financial year ends on 31 December, the first relevant reporting period would be the quarterly results for the 3 months ending 31 March 2013 (where quarterly reports are published), or the interim results for the 6 months ending 30 June 2013. Although quarterly and interim results are not required to be reviewed by auditors under the Rules, issuers should assess the implications of HKFRS / IFRS 10 on their results and, where appropriate, consult their auditors.

Issuers with financial year ends other than on 31 December will need to disclose an assessment of the financial impact of HKFRS / IFRS 10 on their accounts in their 2013 financial statements, and make detailed disclosures of the amounts of adjustments in their first set of quarterly or interim results to be published in 2013 or later.

Listing Rules

Issuers are also reminded of their obligations under Part XIVA of the Securities and Futures Ordinance to disclose inside information. Issuers should assess the effect of any consolidation or deconsolidation of entities under the issuer upon their financial position or performance, and make immediate announcements of any inside information arising from these changes.

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¹ Under Hong Kong Accounting Standard 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”, an issuer’s financial statements should disclose impending changes in accounting policy when an entity has yet to implement a new Hong Kong Financial Reporting Standards (HKFRS) that has been issued but not yet come into effect. It also requires disclosure of known or reasonably estimable information relevant to assessing the possible impact that application of the new HKFRS will have on the entity’s financial statements in the period of initial application.

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The new subsidiary is part of the issuers' group and is required to comply with the Rules. Issuers should assess the impact of any new subsidiary on their continuing compliance with the Rules, for example:-

- Activities carried out under the new subsidiary would be subject to the Rules. For example:
 - Disclosure of inside information under Main Board Rule 13.09 / GEM Rule 17.10;
 - Transactions of the new subsidiary would be subject to the requirements relating to notifiable transactions and connected transactions under Main Board Chapters 14 and 14A / GEM Chapters 19 and 20. There may be immediate disclosure obligations² if the new subsidiary has continuing transactions with connected persons of the issuer;
 - Spin-off of the new subsidiary would be subject to the requirements under Practice Note 15 of the Main Board Rules / Practice Note 3 of the GEM Rules;
 - Share option schemes of subsidiaries would be subject to the requirements in Main Board Chapter 17 / GEM Chapter 23;
- The group of connected persons under the Rules may be expanded as the connected persons (e.g. directors and substantial shareholders) of the subsidiary would also be connected persons of the issuer. The expanded group of connected persons may affect areas such as the public float of the issuer, which excludes shares held by connected persons of the issuer; and
- The associates of an existing connected person under the Rules may be expanded as associates of connected persons include certain companies and their subsidiaries. Where these companies are required to consolidate new subsidiaries under HKFRS / IFRS 10, these new subsidiaries would also become associates of the existing connected persons of the issuer. The expanded group of connected persons and associates may affect areas such as the following:
 - Persons who may not vote on corporate actions and transactions (e.g. associates of directors); and
 - The Model Code, where it applies to restrict dealings by associates of directors.

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² See Main Board Rule 14A.41 / GEM Rule 20.41

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If you have any questions on compliance with the Rules, please contact our case officers.

Yours faithfully
For and on behalf of
The Stock Exchange of Hong Kong Limited

[Signed]

David Graham
Chief Regulatory Officer and Head of Listing