

# Chapter 7

## GENERAL

### ACCOUNTANTS' REPORTS

#### When required

7.01 This Chapter sets out the detailed requirements for accountants' reports on the profits and losses, assets and liabilities of, and other financial information on, an issuer or a business or company, to be acquired by an issuer for inclusion in listing documents or circulars. Accountants' reports are required to be included in the following listing documents and circulars:—

- (1) a listing document issued by a new applicant, but subject to rule 14.11(6) relating to a listing document supporting an introduction;
- (2) a listing document issued by a listed issuer in connection with an offer of securities to the public for subscription or purchase which is required by either section 38(1) or section 342(1) of the Companies Ordinance to set out the reports specified in Part II of the Third Schedule to that Ordinance; and
- (3) a circular issued in connection with a major transaction, a very substantial acquisition or a reverse takeover (see rules 19.55 and 19.56) unless the company being acquired is itself a company listed on GEM or the Main Board.

*Note: By virtue of rules 11.11 and 27.07, the accountants' report required to be included in the listing document of a new applicant must cover the requisite financial period ending not more than 6 months before the date of the listing document.*

#### Reporting accountants

7.02 All accountants' reports must be prepared by professional accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company and who are independent both of the issuer and of any other company concerned to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the guideline on independence (Statement 1.203) issued by the Hong Kong Society of Accountants, provided that, in the case of a circular issued by a listed company in connection with the acquisition of an overseas company, the Exchange may be prepared to permit the accountants' report to be prepared by a firm of accountants which is not so qualified but which is acceptable to the Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

#### Basic contents of accountants' report for a listing document

7.03 In the case of a new applicant (rule 7.01(1)) and an offer of securities to the public for subscription or purchase falling within rule 7.01(2), the accountants' report must include:—

##### *History of results*

- (1) the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering:
  - (a) at least the 2 financial years immediately preceding the issue of the listing document;

- (b) where the issuer satisfies the conditions set out in rule 11.12(3), at least the 12 month period from the commencement of its active business pursuits; or
- (c) such shorter period as may be acceptable to the Exchange (see rule 11.14);

*Note: The accountants' report must cover a period of at least 24 months of active business pursuits in the case of a new applicant described in rule 11.12(2)(a).*

- (2) the results of any business or subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up (on the same basis, where the subsidiary is itself a holding company, as in (1) above) in respect of each of the 2 financial years referred to in (1) above (or in respect of the period since commencement of such business or the incorporation or establishment of such subsidiary, as the case may be, if this occurred within such 2 year period).

#### *Balance sheet*

- (3)
  - (a) the balance sheet of the issuer and, if the issuer is itself a holding company, the consolidated balance sheet of the issuer and its subsidiaries in each case as at the end of each of the two financial years to which the latest audited accounts of the issuer have been made up except that if the listing document is not required by either section 38(1) or section 342(1) of the Companies Ordinance to set out the reports specified in Part II of the Third Schedule of that Ordinance and the issuer is itself a holding company then the accountants' report need only include the consolidated balance sheet of the issuer and its subsidiaries;
  - (b) in the case of banking companies, the balance sheet as at the end of each of the two financial years prepared in accordance with rule 7.03(3)(a) must include information on the assets and liabilities set out in the Financial Disclosure by Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority;
- (4)
  - (a) the balance sheet of any business or subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up (on the same basis, where the subsidiary is itself a holding company, as in (3) above) in each case as at the end of each of the two financial years to which the latest audited accounts of such business or subsidiary (as the case may be) have been made up;
  - (b) in the case of banking companies, the balance sheet as at the end of each of the two financial years prepared in accordance with rule 7.03(4)(a) must include information on the assets and liabilities set out in the Financial Disclosure by Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority;

#### *Cash flow statement*

- (4A) the cash flow statement of the issuer or, if the issuer is itself a holding company, the consolidated cash flow statement of the issuer and its subsidiaries in each case for each of the two financial years to which the latest audited accounts of the issuer have been made up;

#### *Statement of changes in equity*

- (4B) a statement of changes in equity of the issuer for each of the two financial years to which the latest audited accounts of the issuer have been made up;

*Additional disclosures for Financial Conglomerates*

- (4C) where the issuer is regarded as a financial conglomerate (see rule 18.37B) in any of the two financial years to which the latest audited accounts have been made up, the information required by rule 18.37A in respect of the financial year or years in which the issuer is regarded as a financial conglomerate;

*Other*

- (5) the earnings per share and the basis of computation in respect of each of the years referred to in (1) and (2) above except that the accountants' report need not include this information if, in the opinion of the reporting accountants, such information is not meaningful having regard to the purpose of the accountants' report or if combined results are presented in accordance with rule 7.08 or if the accountants' report relates to an issue of debt securities;

- (6) all movements to and from any reserves including movements arising from:—

- (a) consolidation or acquisition (i.e. the write-off of goodwill/establishment of a capital reserve);
- (b) the revaluation of assets;
- (c) the translation of accounts denominated in foreign currencies; or
- (d) the redemption or repurchase of shares of the issuer

if those movements are not reflected in the results in respect of each of the years referred to in (1) and (2) above;

- (7) a statement of the indebtedness as at the end of each of the period reported on showing, as regards bank loans and overdrafts and separately as regards other borrowings of the issuer (or of the issuer and its subsidiaries, including any company which will become a subsidiary by reason of any acquisition falling within rules 7.03(2) and (4)), the aggregate amounts repayable:—

- (a) on demand or within a period not exceeding 1 year;
- (b) within a period of more than 1 year but not exceeding 2 years;
- (c) within a period of more than 2 years but not exceeding 5 years; and
- (d) within a period of more than 5 years;

- (8) the details of the principal accounting policies which have been applied in respect of the period reported on;

- (9) a statement of any significant subsequent events which have occurred to any business or company or within any group covered by the accountants' report since the end of the period reported on or, if there are no such events, a statement of that fact; and

- (10) any other matters which appear to the reporting accountants to be relevant having regard to the purpose of the accountants' report.

*Note: Where a new applicant satisfies the conditions set out in rule 11.12(3) or rule 11.14, references to "the two financial years" or "the financial year" in rules 7.03(2) to 7.03(7) shall mean the period(s) described in rule 7.03(1)(b) or rule 7.03(1)(c) (as the case may be).*

*Specific detail concerning financial information*

7.04 The report on results and financial position under rules 7.03(1) to (4) above must disclose separately at least the following information:—

- (1) Income statement
  - (a) turnover;
  - (b) investment and other income;
  - (c) profit (or loss) on sale of investments or properties;
  - (d) cost of goods sold;
  - (e) interest on borrowings;
  - (f) depreciation/amortisation;
  - (g) profit (or loss) before taxation, including the share of the profit (or loss) of affiliated companies, with separate disclosure of any items included therein which are exceptional because of size, nature and incidence;
  - (h) taxation on profits (Hong Kong and overseas) in each case indicating the basis of computation, with separate disclosure of the taxation on share of affiliated companies' profits;
  - (i) profit (or loss) attributable to minority interests;
  - (j) profit (or loss) attributable to shareholders;
  - (k) rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby and any waivers of dividend except that the accountants' report need not disclose this information:—
    - (a) if combined results are presented in accordance with rule 7.08 and, in the opinion of the reporting accountants, such information is not meaningful having regard to the purpose of the report; or
    - (b) if the accountants' report relates to an issue of debt securities; or
    - (c) in the case of a major transaction;
  - (l) details of any special dividend proposed to be paid after the date of the accountants' report;
- (2) Balance sheet information as follows, if applicable:
  - (a) fixed assets;
  - (b) current assets
    - (i) stocks;

- (ii) debtors including credit policy and ageing analysis of accounts receivable;
  - (iii) cash at bank and in hand; and
  - (iv) other current assets;
  - (c) current liabilities
    - (i) borrowings and debts; and
    - (ii) ageing analysis of accounts payable;
  - (d) net current assets (liabilities);
  - (e) total assets less current liabilities;
  - (f) non-current liabilities
    - (i) borrowings and debts;
  - (g) capital and reserves; and
  - (h) minority interests.
- (3) in the case of banking companies, the information on results and financial position set out in the Financial Disclosure by Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority should be provided in place of that set out in sub paragraph (1) (with the exception of that required by sub-paragraphs 1(k) and 1(l)) and (2) above.
- (4) Segment information

The income statement and balance sheet shall, in addition to that information required by (1) to (2) immediately above, include the information required by:—

- (a) Statement of Standard Accounting Practice 26 segment reporting if the issuer prepares its annual financial statements in accordance with standard accounting practices in Hong Kong; or
- (b) International Accounting Standard 14 reporting financial information by segment if the issuer prepares its annual financial statements in accordance with International Accounting Standards; or
- (c) the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if the issuer prepares its annual financial statements in accordance with US GAAP.

*Note: The information required by this rule may be provided on the face of income statement or the balance sheet, as appropriate, or in the notes to the financial statements.*

## **Basic contents of accountants' report for certain notifiable transaction circulars**

- 7.05 In the cases referred to in rule 7.01(3) concerning a circular in connection with a major transaction, a very substantial acquisition or a reverse takeover, the accountants' report must include:—

### *Three year history of results*

- (1) (a) the results, for the relevant period, of the business which, or of the company (or, if that company is itself a holding company, of the company and its subsidiaries) in whose share capital an interest, has been acquired, agreed to be acquired or is proposed to be acquired since the date to which the latest published audited accounts of the issuer have been made up; provided always that where any company in question has not or will not become a subsidiary of the issuer, the Exchange may be prepared to relax this requirement;

*Note: For the purposes of this rule, the "relevant period" comprises each of the 3 financial years (applicable to such business or company) immediately preceding the issue of the circular (or the period since commencement of such business or the incorporation or establishment of such company, as the case may be, if less) or such shorter period as may be acceptable to the Exchange.*

- (b) in the case of banking companies, the report on results prepared in accordance with rule 7.05(1)(a) must include the information on results set out in the Financial Disclosure by Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority;

### *Three year balance sheet*

- (2) (a) the balance sheet of the business which, or of the company (and, if that company is itself a holding company, the consolidated balance sheet of the company and its subsidiaries) in whose share capital an interest has been acquired, agreed to be acquired or is proposed to be acquired since the date to which the latest published audited accounts of the issuer have been made up, in each case as at the end of each of the three financial years (or the end of each of the financial years since commencement of such business or the incorporation or establishment of such company, as the case may be, if less) to which the latest audited accounts of such business or company (as the case may be) have been made up;
- (b) in the case of banking companies, the balance sheet as at the end of each of the three financial years (or the end of each of the financial years since commencement of such business or the incorporation or establishment of such company, as the case may be, if less) must include the information on the assets and liabilities set out in the Financial Disclosure by Locally Authorized Institutions issued by the Hong Kong Monetary Authority;

### *Three year cash flow statement*

- (2A) the cash flow statement of the business which, or of the company (or, if that company is itself a holding company, of the company and its subsidiaries) in whose share capital an interest, has been acquired, agreed to be acquired or is proposed to be acquired since the date to which the latest published audited accounts of the issuer have been made up, in each case for each of the three financial years (or for each of the financial years since commencement of such business or the incorporation or establishment of such company, as the case may be, if less) to which the latest audited accounts of such business or company (as the case may be) have been made up;

*Three year statement of changes in equity*

- (2B) a statement of changes in equity of the business which, or of the company (or, if that company is itself a holding company, of the company and its subsidiaries) in whose share capital an interest, has been acquired, agreed to be acquired or is proposed to be acquired since the date to which the latest published audited accounts of the issuer have been made up, in each case for each of the three financial years (or for each of the financial years since commencement of such business or the incorporation or establishment of such company, as the case may be, if less) to which the latest audited accounts of such business or company (as the case may be) have been made up;

*Additional disclosures for Financial Conglomerates*

- (2C) where the business or company acquired or to be acquired is regarded as a financial conglomerate (see rule 18.37B) in any of the three financial years (or for each of the financial years since commencement of such business or the incorporation or establishment of such company, as the case may be, if less) to which the latest audited accounts have been made up, the information required by rule 18.37A in respect of the financial year or years in which the issuer is regarded as a financial conglomerate;

- (3) all movements to and from any reserves including movements arising from:—

- (a) consolidation or acquisition (i.e. the write-off of goodwill/establishment of a capital reserve);
- (b) the revaluation of assets; or
- (c) the translation of accounts denominated in foreign currencies; or
- (d) the redemption or repurchase of shares of the issuer,

if those movements are not reflected in the results in respect of each of the financial years referred to in (1) above;

- (4) a statement of the indebtedness as at the end of each of the period reported on showing, as regards bank loans and overdrafts and separately as regards other borrowings of the business or company or company and its subsidiaries covered by the accountants' report, the aggregate amounts repayable:—

- (a) on demand or within a period not exceeding 1 year;
- (b) within a period of more than 1 year but not exceeding 2 years;
- (c) within a period of more than 2 years but not exceeding 5 years; and
- (d) within a period of more than 5 years,

except that such an analysis of debt repayments need not be included in the case of a major transaction (see rule 19.55);

- (5) the details of the principal accounting policies which have been applied in respect of the period reported on;

- (6) a statement of any significant subsequent events which have occurred to any business or company or company and its subsidiaries covered by the accountants' report since the end of the period reported on or, if there are no such events, a statement of that fact; and
- (7) any other matters which appear to the reporting accountants to be relevant having regard to the purpose of the accountants' report.

7.06 The report on results and financial position under rules 7.05(1) and (2) must disclose separately the information referred to in rule 7.04.

### **Requirements applicable in all cases**

7.07 In all cases:—

- (1) the accountants' report must include a statement of:
  - (a) whether or not the accounts for the period reported on have been audited and, if so, by whom; and
  - (b) whether or not any audited accounts have been made up since the end of the last financial period reported on;
- (2) the reporting accountants must express an opinion as to whether or not the relevant information gives, for the purposes of the accountants' report, a true and fair view of the results and cash flows for the period reported on and of the balance sheet as at the end of each of the period reported on;
- (3) the accountants' report must state that it has been prepared in accordance with the Auditing Guideline – Prospectuses and the reporting accountant (Statement 3.340) issued by the Hong Kong Society of Accountants or any comparable standard issued from time to time by the International Auditing Practices Committee of the International Federation of Accountants;
- (4) the reporting accountants must be named in the accountants' report; and
- (5) the accountants' report must be dated.

### **Individual or combined results**

7.08 In the case of a new applicant (rule 7.01(1)) and an offer of securities to the public for subscription or purchase falling within rule 7.01(2), the reporting accountants must report on the consolidated or combined financial history of results and the consolidated or combined statement of assets and liabilities of the issuer and its subsidiaries and any business or subsidiary acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up, unless otherwise agreed by the Exchange.

7.09 In the case of a circular issued by a listed issuer in connection with the acquisition of more than one business and/or company and/or group of companies, the reporting accountants must report on the individual financial histories of results and the individual statements of assets and liabilities of each of those businesses, companies or groups of companies referred to in rule 7.05, unless otherwise agreed by the Exchange.

## Disclosure

7.10 The information to be disclosed in respect of rules 7.03, 7.08 and 7.09 must be in accordance with best practice which is at least that required to be disclosed in respect of those specific matters in the accounts of a company under the Companies Ordinance and Statements of Standard Accounting Practice issued from time to time by the Hong Kong Society of Accountants or the International Accounting Standards as promulgated from time to time by the International Accounting Standards Committee and, in the case of banking companies, the Financial Disclosure by Locally Authorized Institutions issued by the Hong Kong Monetary Authority.

## Accounting standards

7.11 The financial history of results and the statement of assets and liabilities included in the accountants' report must normally be drawn up in conformity with accounting standards approved by the Hong Kong Society of Accountants and laid down in the Statements of Standard Accounting Practice issued from time to time by that Society or in conformity with the International Accounting Standards as promulgated from time to time by the International Accounting Standards Committee.

*Note: The issuer must apply one of these standards consistently and shall not change from one standard to the other, unless there are reasonable grounds to justify such change.*

7.12 The financial history of results and statement of assets and liabilities included in the accountants' report of a listing applicant, which is listed, or is to be simultaneously listed, on the New York Stock Exchange or the Nasdaq National Market of the United States of America may, be drawn up in conformity with Generally Accepted Accounting Principles in the United States of America (US GAAP) provided that:—

- (1) the overseas listing applicant has adopted US GAAP for the purposes of reporting to shareholders on the New York Stock Exchange or the Nasdaq National Market of the United States of America; and
- (2) the overseas listing applicant's principal activity does not consist of property development and/or investment.

7.13 Except as provided in rule 7.12, a listing applicant must obtain the prior approval of the Exchange if it proposes that the accountants report should be drawn up otherwise than in conformity with either of the standards referred to in rule 7.11. Such approval will only be given in exceptional circumstances. If such approval is given, the Exchange will normally require the report to contain a statement of the financial effect of the material differences (if any) and a summary of any material differences in disclosure (if any) from either of the standards referred to in rule 7.11.

7.14 Whilst the report for a PRC issuer must normally be drawn up in accordance with either of the standards referred to in rule 7.11, such report may, in addition, include (in a separate part) financial information conforming with PRC accounting rules and regulations, provided that the report contains a statement of the financial effect of the material differences (if any) and a summary of any material differences in disclosure (if any) from either of the standards referred to in rule 7.11.

7.15 Without prejudice to the provisions of rules 7.13 and 7.14, any significant departure from either of the accounting standards referred to in rule 7.11 must be disclosed and explained and, to the extent practicable, the financial effects of such departure quantified.

- 7.16 The relevant standards will normally be those current in relation to the last financial year reported on and, wherever possible, appropriate adjustments should be made to show profits for all periods in accordance with such standards. Where there has been a change in standards during the current financial year of the issuer, the report must contain a statement of the financial effect of any material differences arising out of such change (if any) and a summary of any material differences in disclosure arising out of such change (if any).

### **Statement of adjustments**

- 7.17 In preparing the accountants' report, the reporting accountants should make such adjustments (if any) as are in their opinion appropriate for the purposes of the accountants' report and state therein that all adjustments considered necessary have been made, or (where appropriate) that no adjustments were considered necessary. Where adjustments are made, a written statement (the statement of adjustments) is required to be made available for public inspection, and should be signed by the reporting accountants (see paragraph 52 of Part A and paragraph 42 of Part B of Appendix 1).

*Note: Where a listing applicant is seeking a simultaneously listing and is precluded by the regulation in that jurisdiction from making adjustments as envisaged by rule 7.17, additional information should be provided to show details of the adjustments (if any) and the effect of such on the results and net assets and liabilities as if such adjustments would have been made for purpose of the accountants' report prepared on the basis in accordance with the Auditing Guideline "Prospectus and the Reporting Accountant" issued by the Hong Kong Society of Accountants."*

- 7.18 The statement of adjustments must set out, for each of the years reported upon, each adjustment made and be sufficiently detailed so as to reconcile the figures in the accountants' report with the corresponding figures in the audited accounts and must give the reasons therefor.
- 7.19 Where the accountants' report is set out in a listing document the statement of adjustments relating to that report must be submitted to the Exchange in anticipated final draft form in accordance with rules 12.22(3) and 28.13(7) and in certified form in accordance with rules 12.24(6) and 28.14(3). In every other case, the statement of adjustments must be submitted to the Exchange at the same time as the proofs of the circular containing the accountants' report are submitted.

### **Reference to other reports**

- 7.20 Where the reporting accountants refer to reports, confirmations or opinions of valuers, accountants or other experts, the names, addresses and professional qualifications of such other persons or firms should be stated in the report. In any case, the listing document or circular will be required to include a statement that such other persons or firms have given and have not withdrawn their written consent to its issue with the inclusion of such references in the form and context in which they are included.

### **Qualified or modified reports**

- 7.21 Where the reporting accountants qualify or modify their accountants' report, they should refer to all material matters about which they have reservations. All reasons for the qualification or modification should be given and its effect quantified if this is both relevant and practical. A qualified or modified accountants' report in respect of a new applicant may not be acceptable where the qualification or modification relates to a matter of significance to investors.
- 7.22 Where the accountants' report relates to an acquisition which is a major transaction, very substantial acquisition or a reverse takeover and the report is expected to be qualified, the Exchange should be consulted at an early stage.

### **Additional matters for disclosure**

- 7.23 Where the business of the issuer necessitates extra disclosure to the members in its annual accounts by virtue of special legislation, the equivalent disclosure must be made in the report.

#### **General**

- 7.24 Where the issuer is entitled to avail itself, and has availed itself, of the benefit of any of the provisions of Part III of the Tenth Schedule to the Companies Ordinance, nothing herein shall require any financial information to be included in the accountants' report which need not be disclosed in a balance sheet or profit and loss account of the issuer which is drawn up in accordance with that Ordinance by virtue of any of those provisions or as a direct effect or result of any of those provisions. In the case of such issuers the opinion of the reporting accountants which is required by 7.07(2) may be expressed on an appropriate basis.

*Note: Insurance and shipping companies will not be entitled to avail themselves of the benefits of the provisions of Part III of the Tenth Schedule to the Companies Ordinance.*

- 7.25 It is emphasised that these requirements are not exhaustive and that further information may be required, or the required information varied, by the Exchange where it considers it necessary. In cases of doubt or difficulty, the reporting accountants should consult the Exchange through the issuer's Sponsor or, in circumstances where the issuer is no longer required to have (and does not otherwise retain) a Sponsor, through the issuer's authorised representative or financial adviser.