

HONG KONG GAAP

A Guide for the Preparation of

Interim Reports

August 2000

This guide is part of a series of publications intended to assist users in the preparation of financial information in accordance with accounting and regulatory requirements in Hong Kong. These include:

Hong Kong GAAP – A Practical Guide to Generally Accepted Accounting Practice

Hong Kong financial and reporting manual, written by Deloitte Touche Tohmatsu and published by Sweet & Maxwell.

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August 2000

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The following abbreviations have been used throughout this publication:

App	Appendix to the Listing Rules
GEM	Growth Enterprise Market
GR	Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the GEM Rules)
HKMA	Hong Kong Monetary Authority
HKSA	Hong Kong Society of Accountants
IAS	International Accounting Standard
INT	Interpretation issued by the Urgent Issues and Interpretations Sub-Committee of the HKSA
LR	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules)
MA	Recommendations on Interim Financial Disclosure by Authorised Institutions Incorporated in Hong Kong, issued by the HKMA
MDA	Management Discussion and Analysis
PN	Practice Note to the Listing Rules
SDIO	Securities (Disclosure of Interests) Ordinance
SEHK	Stock Exchange of Hong Kong Limited
SRGL	Statement of Recognised Gains and Losses
SSAP	Statement of Standard Accounting Practice

EXECUTIVE SUMMARY

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Requirement to report interim financial information

The requirement to report interim financial information is generally restricted to enterprises listed on either the Main Board or the GEM of the SEHK. The following tables provide a high level summary of the requirements of the Listing Rules and the GEM Rules in this regard.

**Enterprises listed on the Main Board of the SEHK
(Effective for interim periods ending on or after 1 July 2000)**

- ⇒ Interim report required for first 6 months of each financial year.
- ⇒ Report to be sent to members within 3 months of the end of the interim period.
- ⇒ To include condensed income statement, balance sheet, statement of recognised gains and losses, and cash flow statement.
- ⇒ To comply with the requirements of SSAP 25 *Interim Financial Reporting*.
- ⇒ To include comprehensive Management Discussion and Analysis (MDA).
- ⇒ To include other details of share interests etc. as specified by the Listing Rules.
- ⇒ Additional disclosure requirements for financial conglomerates and banking companies.
- ⇒ To be reviewed by audit committee or external auditors.
- ⇒ Preliminary announcement to include, as a minimum, condensed income statement, condensed balance sheet and MDA, with other disclosure requirements specified by the Listing Rules.

Enterprises listed on GEM

- ⇒ Interim reports required for each of the first 3, 6 and 9 month periods of each financial year.
- ⇒ Report required to be published in printed form and to be submitted for publication on the GEM website within 45 days of the end of the relevant period. As soon as is reasonably practicable thereafter, copies of the report to be sent to members.
- ⇒ To include headline income statement information and supplementary notes.
- ⇒ To include an explanatory statement relating to the activities and results of the enterprise for the period and, for the first 2 financial years after listing, details of progress towards achievement of business objectives.
- ⇒ To include other details of share interests etc. as specified by the GEM Rules.
- ⇒ Additional disclosure requirements for banking companies.

Other Hong Kong reporting enterprises will not normally be required to report interim financial information – although some larger public interest enterprises choose to do so voluntarily. In the past, enterprises which chose to report interim financial information voluntarily were not required to comply with any rules as to the content of such reports. However, for accounting periods beginning on or after 1 January 2000, any enterprise that wishes to describe its interim report as complying with Statements of Standard Accounting Practice will be required to comply with SSAP 25 and all other applicable Standards and Interpretations.

Effect in practice of recent developments

We anticipate that the principal implications in practice for Main Board enterprises complying with the revised Listing Rules, and on other companies voluntarily complying with SSAP 25, will be as follows:

- interim reports will be required to include all primary financial statements and not only headline income statement information as had previously been the case;
- for Main Board enterprises, a more comprehensive discussion and analysis of the group's performance in the interim period will be required.
- at interim reporting dates, preparers are now specifically required to consider carefully any changes in accounting policies that will be applied in the next annual financial statements and to ensure that such changes are adopted for interim reporting purposes. Although always best practice, not all reporting enterprises will have imposed such discipline in the past; and
- preparers will need to carefully reconsider the measurement principles applied at interim reporting dates so that there is no inappropriate smoothing of earnings or recognition of assets/liabilities that would not qualify for recognition at the annual reporting date.

In terms of overall effect, the revised requirements will result in interim reports that present a much more comprehensive picture of the results for the interim period and of the financial position at the interim reporting date – both in terms of the volume of information that is provided and the discipline that has been exercised in producing that information. Reports prepared under these more rigorous requirements should provide a clearer indication of the enterprise's progress during the interim reporting period.

Review of interim financial reports

The Listing Rules require that the audit committee must review the interim report. Where an audit committee has not been formed, the auditors should review the interim report.

Where the auditors are carrying out such a review, they will refer to Statement of Auditing Standards 700 *Engagements to Review Interim Financial Reports* (SAS 700) recently issued by the HKSA.

A discussion of the scope of such assignments and of the level of assurance provided is set out at Section 9 of this publication.

The review by the auditors provides boards and audit committees with enhanced assurance that the interim financial report is free from material misstatement and has been properly prepared in accordance with the requirements of SSAP 25 and with the relevant provisions of the Listing Rules.

It is our expectation that a review of the interim financial report by the auditors will prove to be an integral part of the process by which boards and audit committees satisfy themselves as to the integrity and reliability of interim financial reports issued under the Listing Rules.

Practical considerations

The implementation of the requirements of the revised Listing Rules and SSAP 25 as regards interim reporting will present a number of significant challenges for directors of Main Board listed enterprises.

Key questions to be addressed include:

- whether the resources of the finance function within the enterprise are sufficient to enable the preparation of the interim report on a timely basis;
- whether the accounting system is capable of providing comprehensive information at the interim reporting date and, in particular, sufficient information to enable appropriate estimates and judgements to be made;
- whether sufficient additional management information is available to enable the directors to compile a comprehensive and meaningful Management Discussion and Analysis on a timely basis;
- how sufficient time can be scheduled for the audit committee and the auditors to perform their reviews.

This Publication

The preparation of interim reports under the new regime will require a more disciplined process resulting in the production of more robust financial information. Our hope is that this publication will provide preparers with practical assistance in undertaking this task, in terms of identifying potential problem areas and providing guidance for implementation.

1) INTRODUCTION

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- 1.1 Recent months have seen a number of significant developments in the reporting of interim financial information. The Listing Rules have been amended so as to require the reporting of significantly expanded information at interim reporting dates for enterprises listed on the Main Board of the SEHK. In addition, the Hong Kong Society of Accountants has issued SSAP 25 *Interim Financial Reporting*.
- 1.2 The Listing Rules amendments are generally effective for reporting periods ending on or after 1 July 2000, although earlier adoption is encouraged. For the purpose of establishing the effective date, 'reporting period' includes interim periods. The amendments will therefore generally become mandatory for Main Board listed enterprises with interim reporting periods beginning on or after 2 January 2000 (e.g. for an enterprise with a March year end, the amendments will be effective for the six monthly interim period beginning on 1 April 2000). Reporting enterprises with December year ends will not generally be required to comply until 30 June 2001 interim reporting dates.
- 1.3 The variety of sources of regulation, and the differing requirements for various classes of reporting enterprise, can result in some confusion. In issuing this *Guide for the Preparation of Interim Reports*, our objective is to remove some of that confusion by providing:
- an accessible summary of reporting requirements;
 - clarification on matters that may be subject to conflicting interpretations; and
 - guidance on practical implementation issues for the revised requirements.

The paragraphs of this publication that represent the authors' interpretations are highlighted by shading.

2) REQUIREMENTS TO PREPARE INTERIM REPORTS

PAGES 15-20

Enterprises listed on the Main Board

- 2.1 Until recently, the requirements for enterprises listed on the Main Board were very similar to those described below for GEM listed enterprises. However, in May 2000, the SEHK issued revised disclosure rules which significantly expanded the requirements for Main Board enterprises. The amendments are generally effective for interim reporting periods ending on or after 1 July 2000.
- 2.2 The effect of the amendments has been to significantly expand the required content for interim reports. They will now include a balance sheet, income statement, cash flow statement and statement of recognised gains and losses. Appendix 16 to the Listing Rules specifies the minimum content for such primary statements. The expanded interim reports will also include a comprehensive discussion and analysis of the enterprise's performance in the interim period.
- 2.3 Other matters requiring disclosure include particulars of directors' interests in shares and options of the enterprise, significant shareholders and compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.
- 2.4 Additional industry-specific information is required to be disclosed by financial conglomerates and banking companies.
- 2.5 An important amendment to the Listing Rules is that interim reports for Main Board enterprises are now required to be prepared in compliance with SSAP 25. Therefore, all of the requirements of the next section will be applicable to such enterprises.
- 2.6 Enterprises listed on the Main Board of the SEHK are required to prepare an interim report in respect of the first 6 months of each financial year, unless that financial year is six months or less. [App 7A/7B/7I.10(1)]
- 2.7 If a change in the financial year of the enterprise is proposed, the SEHK should be consulted as to the period or periods to be covered by the interim report. [App 16 Note 37.1]
- 2.8 Not later than 3 months after the end of the interim period, the interim report should be sent to: [App 7A/7B/7I.8(1) & 10(1)]

- every member of the company; and
- every other holder of its listed securities (not being bearer securities).

2.9 The enterprise is also required to send 500 copies of the interim report to the SEHK at the same time as it is sent to members of the company with registered addresses in Hong Kong. [App 7A/7B/7I.10(3)]

GEM listed enterprises

2.10 The requirements of the GEM Rules for interim reporting were established in 1999 and have not been updated since that time. In particular, they have not been modified for the publication of SSAP 25, nor have they been expanded in the same manner as the Listing Rules. We understand that the GEM Board are currently re-examining the requirements for GEM listed enterprises and that amendments in line with the Main Board requirements are likely to be issued.

2.11 Currently, therefore, the minimum content of an interim report for a GEM listed enterprise is restricted to headline income statement information and details on a number of specified matters such as directors' interests in shares and options, significant shareholders, discussion of the activities and results of the enterprise and of progress towards achieving business objectives, and, where applicable, a copy of the auditors' report on the interim report and details of any qualifications therein.

2.12 Disclosure of the above information ensures compliance with the GEM Rules as regards interim reporting. Therefore, GEM listed enterprises are under no obligation to produce other primary statements (balance sheet, cash flow statement or statement of recognised gains and losses) at interim reporting dates. However, as discussed above for unlisted enterprises, if a GEM listed enterprise wishes to state that its interim report has been prepared in accordance with Statements of Standard Accounting Practice, it will now also be required to comply with SSAP 25 and all other applicable Standards and Interpretations.

2.13 GEM listed enterprises are required to prepare an interim report in respect of each of the first 3, 6 and 9 month periods of each financial year. [GR 18.53]

REQUIREMENTS TO PREPARE INTERIM REPORTS

- 2.14 Within 45 days of the end of each interim reporting period, such interim reports should be published in printed form and submitted for publication on the GEM website. [GR 18.53 & 16.04(2)]
- 2.15 As soon as is reasonably practicable after publishing any half-year or quarterly report, the enterprise is required to send a copy of that report to: [GR 18.54 & 18.03]
- every member of the company; and
 - every other holder of its listed securities.
- 2.16 The enterprise is also required to send 100 copies of the interim report to the SEHK at the same time as it is sent to the holders of its listed securities with registered addresses in Hong Kong. [GR 18.54]

Impact of SSAP 25

- 2.17 SSAP 25 *Interim Financial Reporting* was issued in December 1999 and is stated to be effective for periods beginning on or after 1 January 2000. As discussed above, in practice its adoption is only mandatory for Main Board listed enterprises as a result of the requirement of the revised Listing Rules that interim reports should comply with SSAP 25. However, if any other enterprise (whether GEM listed or not) wishes to produce interim financial information, and to state that that information complies with Statements of Standard Accounting Practice, then it will be required to comply with SSAP 25.
- 2.18 SSAP 25 specifies the minimum content for an interim financial report and also establishes some measurement rules. The minimum components specified for inclusion are a condensed balance sheet, income statement, cash flow statement, statement of recognised gains and losses, and also selected explanatory notes. The explanatory notes required are designed to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the enterprise since the last annual reporting date.
- 2.19 As regards measurement rules, SSAP 25 requires that the same accounting policies should be applied for interim reporting as are applied in the enterprise's annual financial statements, except for policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. Measurements for interim reporting purposes should be made on a year-to-date basis, and so that the frequency of the enterprise's reporting does not affect the measurement of its annual results.

2.20 SSAP 25 does not contain any rules as to which enterprises should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. The Standard notes that governments, securities regulators, stock exchanges, and accountancy bodies often require enterprises with publicly traded debt or equity to publish interim financial reports and that those regulations will generally specify the frequency and timing of such reports. However, SSAP 25 *encourages* publicly-traded enterprises: [SSAP 25.1]

- to provide interim financial reports at least as of the end of the first half of their financial year; and
- to make their interim financial reports available no later than 60 days after the end of the interim period.

2.21 In a Hong Kong context, the requirements referred to (as summarised at paragraphs 2.1 to 2.16 above) are specified by the SEHK. In its consultation prior to the revision of the Listing Rules in May 2000, the Exchange did propose that interim reports for Main Board listed enterprises should be issued within two months of the end of the interim period. However, responses to that proposal generally supported the view that it was impracticable to shorten reporting deadlines at the same time as significantly expanding the content of interim reports. Accordingly, at this stage, a three-month reporting deadline has been retained. However, once listed enterprises have gained experience in reporting expanded interim information, it is likely that the question of imposing a two-month deadline will be revisited.

3) PRELIMINARY ANNOUNCEMENTS OF INTERIM RESULTS

PAGES 21-24

Enterprises listed on the Main Board

- 3.1 Enterprises listed on the Main Board are required to include a preliminary announcement of their interim results in the newspapers the next business day after approval by the board of directors and, in any event, not later than three months after the end of the interim period. [App 7A/7B/7I.11(6)]
- 3.2 Immediately on publication, the enterprise is required to supply the SEHK with the names of the relevant newspapers and the date of publication. [App 7A/7B/7I.11(8)]
- 3.3 In circumstances where the enterprise is unable to make the required announcement of its interim results within the required time limit, it should make an announcement within three months after the end of the interim period containing: [App 7A/7B/7I.11(6)]
- a full explanation for its inability to make an announcement of its interim results; and
 - the expected date of announcement of the unaudited results for the first half of the financial year.
- 3.4 The following details, as extracted from the interim report, should be included in the preliminary announcement of interim results: [App 16.46]
- the information in respect of the enterprise's balance sheet and income statement (see paragraph 5.7);
 - a discussion and analysis of the enterprise's performance for the interim period (see paragraph 8.1);
 - any supplementary information that is necessary for a reasonable appreciation of the results for the six month period;
 - particulars of any purchase, sale or redemption by the listed enterprise or any of its subsidiaries, of its securities during the interim period (see item 2025 in the interim reporting compliance checklist);
 - a statement as to whether the interim figures have been audited (see paragraph 5.27); and

- particulars of compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules (see paragraph 5.27).

3.5 The revised Listing Rules do not contain any provisions as to the publication of the enterprise's preliminary announcement of its interim results on either its own website or the SEHK website. We would anticipate that supplementary requirements in this regard will be issued in due course.

GEM listed enterprises

3.6 As stated at paragraph 2.14, the GEM Rules specify that the quarterly interim reports of a GEM listed enterprise must be published in printed form and on the SEHK website within 45 days of the end of the interim reporting period. The GEM Rules specify the principal means of information dissemination on GEM is publication on the internet website operated by the SEHK and do not require any separate paid announcement in a gazetted newspaper of quarterly reporting.

Impact of SSAP 25

3.7 SSAP 25 contains no requirements as to preliminary announcements of interim results. Such announcements are generally just headline extracts and do not generally purport to comply with Statements of Standard Accounting Practice. If any such claim of compliance with Statements of Standard Accounting Practice was made in a preliminary announcement, then all of the requirements of SSAP 25 would need to be complied with – resulting in a much expanded announcement.

4) MINIMUM CONTENT OF INTERIM REPORTS

PAGES 25-34

General

4.1 The following summarises the sources of regulation as to the content of interim reports.

<p><i>Enterprises listed on the Main Board</i></p>	<p>Appendix 16 to the Listing Rules specifies the disclosure requirements for interim reports applicable to all Main Board listed enterprises.</p> <p>The Listing Rules also specify supplementary disclosure requirements for financial conglomerates (see paragraph 5.21) and banking companies (see paragraph 5.19).</p> <p>It is a requirement of the Listing Rules that interim financial information included in interim reports should comply with SSAP 25. Therefore, application of SSAP 25 is effectively mandatory for Main Board listed enterprises.</p>
<p><i>GEM listed enterprises</i></p>	<p>Chapter 18 of the GEM Rules specifies the disclosure requirements for interim reports for GEM listed enterprises. These disclosures are quite limited as compared with the requirements for Main Board listed enterprises (see paragraph 4.23).</p> <p>Compliance with SSAP 25 is not required by the GEM Rules. However, if a GEM listed enterprise wishes to state that its interim report complies with Statements of Standard Accounting Practice, then compliance with SSAP 25 will be required.</p>
<p><i>Other enterprises</i></p>	<p>Other enterprises voluntarily publishing interim reports are not generally subject to any specific reporting requirements. However, if such an enterprise wishes to state that its interim report complies with Statements of Standard Accounting Practice, then compliance with SSAP 25 will be required.</p>

Enterprises listed on the Main Board

Primary statements

4.2 SSAP 25 specifies the minimum requirements, discussed below, for inclusion in an interim financial report. However, SSAP 25 does not discourage or prohibit an enterprise from producing a full set of financial statements for inclusion in its interim report. If an enterprise does choose this route, the form and content of the financial statements must conform to the requirements of SSAP 1(Revised) *Presentation of Financial Statements*. [SSAP 25.7 & 9]

4.3 Although not specifically mentioned in the Listing Rules, Hong Kong listed enterprises do have the option of producing a full set of financial statements at their interim reporting dates. In fact, SSAP 25 states that nothing in SSAP 25 is intended to prohibit or discourage an enterprise from publishing a complete set of financial statements in its interim financial report, rather than condensed financial statements and select explanatory notes.

4.4 Enterprises listed on the Main Board are required to include in their interim reports: [App 16.37(1) to (4); SSAP 25.8]

- a condensed income statement;
- a condensed balance sheet;
- a condensed statement of recognised gains and losses; and
- a condensed cash flow statement (or other condensed statement showing movements in net assets during the period).

4.5 Both the Listing Rules and SSAP 25 contain specific requirements as to what should be presented on the face of the condensed primary statements.

	<i>Listing Rules</i>	<i>SSAP 25</i>
<i>Income statement</i>	Each component of income and expense that was presented in the most recent published annual income statement. [App 16.37(2)]	For each primary statement, each of the headings and subtotals that were included in the most recent annual financial statements. Additional line items are required if their omission would make the condensed interim financial statements misleading. [SSAP 25.10]
<i>Balance sheet</i>	Each of the major components of assets, liabilities and equity that were presented in the most recent published annual balance sheet. [App 16.37(1)]	
<i>SRGL</i>	To show movements in equity other than those arising from capital transactions with shareholders and distributions to shareholders. [App 16.37(4)]	
<i>Cash flow statement</i>	The major subtotals of cash flows that were presented in the most recent published annual cash flow statement. [App 16.37(3)]	

- 4.6 Given the combined requirements set out at paragraph 4.5, the determination of the minimum acceptable content for the face of the primary statements requires a process of deduction.
- 4.7 The requirement for the income statement is clear. The Listing Rules explicitly state that all items that appeared on the most recent published annual income statement must be presented in the condensed income statement for interim reporting purposes.
- 4.8 The requirements for the balance sheet are more ambiguous. The Listing Rules refer to 'major components' of assets, liabilities and equity, but do not define what is meant by a 'major component'. SSAP 25 does not provide any clarification. It uses the terms 'headings' and 'subtotals', thereby implying that not all of the line items that were presented in the most recent annual financial statements are required. If one were to take the words at their literal meaning – it would appear that the minimum level of detail required would be subtotals for non-current assets, current assets, non-current liabilities, current liabilities, and capital and reserves. However, this would not seem to provide very meaningful information for users of financial statements. Therefore, a degree of judgement is required in determining the appropriate level of disclosure.
- 4.9 We consider that, if a particular category of assets/liabilities was considered so material as to require separate disclosure on the face of the balance sheet in the most recent annual financial statements, then such separate disclosure will generally be appropriate in the interim financial report. The rules do, however, allow a degree of flexibility in this regard.
- 4.10 For the statement of recognised gains and losses, neither the Listing Rules nor SSAP 25 provides very clear guidance. Our interpretation is that all material gains and losses occurring in the interim period should be disclosed separately.

- 4.11 As regards the cash flow statement, both the Listing Rules and SSAP 25 refer to 'headings' and 'subtotals'. Therefore, it appears that the minimum requirements are for the presentation of subtotals for 'operating', 'returns on investments and servicing of finance', 'taxation', 'investing' and 'financing' cash flows. These disclosures should be expanded if further detail is considered necessary in order to satisfy the information needs of users of the interim financial report.
- 4.12 The requirements discussed in paragraphs 4.6 to 4.11 will result in the presentation of at least some primary statements that include all of the items that were presented in the most recent annual financial statements. The question then arises as to whether such primary statements should, in practice, be described as 'condensed'. We believe that they should. Given that the notes supplementing the primary statements are limited, certain items that are required by Accounting Standards to be presented either on the face of the primary statements or in the notes thereto will inevitably be omitted. In such circumstances, the primary statement information presented is condensed – even if the appearance of the face of the statement has not changed.

Periods required to be presented

- 4.13 The Listing Rules require that comparative figures are presented for the corresponding period for the income statement and the cash flow statement, and as of the end of the immediately preceding financial year for the balance sheet. [App 16.37(5) and Note 37.2] No comparatives are required for the statement of recognised gains and losses (but see paragraph 4.17).
- 4.14 In addition, an exemption from the requirement to include comparative figures is allowed for the first cash flow statement included in interim financial statements relating to accounting periods ending on or after 1 July 2000. The requirement for disclosure of comparative figures for the cash flow statement will be obligatory in respect of interim financial statements relating to accounting periods ending on or after 1 July 2001. [App 16 Note 37.3]

4.15 Under SSAP 25, interim financial statements are required for the following periods: [SSAP 25.20]

<i>Primary statement</i>	<i>Current</i>	<i>Comparative</i>
<i>Income statement</i>	Current interim period and year-to-date	Same interim period and year-to-date of immediately preceding financial year
<i>Balance sheet</i>	End of current interim period	End of immediately preceding financial year
<i>SRGL</i>	Year-to-date	Year-to-date of immediately preceding financial year
<i>Cash flow statement</i>	Year-to-date	Year-to-date of immediately preceding financial year

4.16 Since enterprises listed on the Main Board are only required to report on a half-yearly basis, the current interim period will generally be the same as the year-to-date. An exception could possibly arise where an enterprise chooses to publish an interim report twice in one year, e.g. where there has been a change of year-end.

EXAMPLE

On the basis of the requirements of the Listing Rules and SSAP 25, the following table illustrates the periods required to be presented when an enterprise with a 31 March 2002 year end reports half-yearly:

	<i>Current</i>	<i>Comparative</i>
Balance sheet at	30 September 2001	31 March 2001
Income statement 6 months ended	30 September 2001	30 September 2000
Cash flow statement 6 months ended	30 September 2001	30 September 2000
SRGL 6 months ended	30 September 2001	30 September 2000

4.17 Paragraphs 4.13 and 4.14 detail specific exemptions provided for in the Listing Rules from the requirement to present comparatives. However, SSAP 25 does not repeat those exemptions. Therefore, availing of those exemptions will result in non-compliance with SSAP 25, which will need to be referred to in any statement of compliance with SSAP 25 (see paragraph 6.12).

4.18 We would anticipate that, for some enterprises, such non-compliance may be unavoidable in the first year of implementation of the revised Listing Rules/SSAP 25. We would recommend a wording along the following lines.

EXAMPLE

These interim condensed financial statements have been prepared in accordance with SSAP 25 *Interim Financial Reporting* except that, in this first year of implementation of the Standard, as permitted by the Hong Kong Stock Exchange Listing Rules, no comparative figures have been presented for either:

- the condensed statement of recognised gains and losses; or
- the condensed cash flow statement.

4.19 This exception to compliance with SSAP 25 would be similarly disclosed in any audit opinion/review opinion given in the interim report.

4.20 We consider that, where it is impracticable to present comparative information in first year of implementation of the revised Listing Rules/SSAP 25, such a qualification is acceptable. However, as regards the ongoing exemption permitted by the Listing Rules from presentation of comparatives for the statement of recognised gains and losses, which would result in a failure to comply fully with SSAP 25 every year, we would strongly encourage reporting enterprises not to avail of the exemption. Presentation of comparatives in future periods will involve no additional cost/effort, since the amounts will already have been disclosed in the previous period.

- 4.21 Enterprises are not precluded from providing additional information. For example, enterprises whose business is highly seasonal may wish to disclose financial information related to the twelve month period ended on the interim date and comparative information on the same basis. [SSAP 25.21]

Detailed disclosure requirements

- 4.22 Both the Listing Rules and SSAP 25 specify additional items for disclosure. These are listed in full in the compliance checklist at Appendix II to this publication, and discussed further in Section 5.

GEM listed enterprises

- 4.23 The requirements of the GEM Rules for interim reporting were established in 1999 and have not been updated since that time. In particular, they have not been modified for the publication of SSAP 25, nor have they been expanded in the same manner as the Listing Rules. We understand that the GEM Board are currently re-examining the requirements for GEM listed enterprises and amendments in line with the Main Board requirements may be issued in time.
- 4.24 Currently, therefore, the minimum content of an interim report for a GEM listed enterprise is restricted to headline income statement information and details on a number of specified matters such as directors' interests in shares and options, significant shareholders, discussion of the activities and results of the enterprise and of progress towards achieving business objectives, and, where applicable, a copy of the auditors' report on the interim report and details of any qualifications therein.
- 4.25 Disclosure of the above information ensures compliance with the GEM Rules as regards interim reporting. Therefore, GEM listed enterprises are under no obligation to produce other primary statements (balance sheet, cash flow statement or statement of recognised gains and losses) at interim reporting dates. However, as discussed at paragraph 4.1, if the enterprise wishes to state that its interim report has been prepared in accordance with Statements of Standard Accounting Practice, it will also be required to comply with SSAP 25.

- 4.26 The detailed disclosure requirements for GEM listed enterprises are set out in Section 6 of the compliance checklist at Appendix II to this publication.

5) DETAILED DISCLOSURE REQUIREMENTS FOR INTERIM REPORTS – MAIN BOARD ENTERPRISES

PAGES 35-44

General

- 5.1 Both the Listing Rules and SSAP 25 contain requirements for disclosures in addition to the information contained in the primary statements as discussed at section 4 above. The following paragraphs include a discussion of those expanded requirements – which are listed in full in the compliance checklist, included at Appendix II to this publication.

SSAP 25 - selected explanatory notes

- 5.2 In addition to the requirement to present primary statements, SSAP 25 specifies that an interim report should contain selected explanatory notes.
- 5.3 The disclosure requirements of SSAP 25 are based on the assumption that anyone reading the interim report will have access to the annual financial statements. Therefore, all of the supplementary notes in the annual financial statements are not required for interim reporting purposes, since this could result in repetition or the reporting of relatively insignificant changes. The explanatory notes included with the interim financial information are intended to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the enterprise since the last annual reporting date [SSAP 25.15]
- 5.4 SSAP 25 requires, as a minimum, that the following information should be disclosed in the notes to the interim financial statements, reported on a year-to-date basis: [SSAP 25.16]
- a statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;
 - explanatory comments about the seasonality or cyclicity of interim operations;
 - the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows, that are unusual because of their size, nature or incidence;

- the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
- issuances, repurchases, and repayments of debt and equity securities;
- dividends paid or proposed (aggregate and per share) separately for ordinary shares and other shares;
- if an enterprise is required to present annual segment information, under SSAP 26, segment revenue and segment result for either the enterprise's business segments or its geographical segments;
- material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- the effect of changes in the composition of the enterprise during the interim period, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings, and discontinuing operations; and
- changes in contingent liabilities or contingent assets since the last annual balance sheet date.

5.5 SSAP 25.17 provides the following examples of the kinds of disclosure required by paragraph 5.4:

- the write-down of inventories to net realisable value and the reversal of such a write-down;
- recognition of a loss from the impairment of property, plant, and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
- the reversal of any provisions for the costs of restructuring;
- acquisitions and disposals of items of property, plant, and equipment;
- commitments for the purchase of property, plant, and equipment;
- litigation settlements;

- corrections of fundamental errors in previously reported financial data;
- extraordinary items;
- any debt default or any breach of a debt covenant that has not been corrected subsequently; and
- related party transactions.

5.6 SSAP 25 does not provide any guidance on the level of detail to be disclosed in respect of the matters listed at paragraphs 5.4 and 5.5. Preparers have some discretion in determining the amount of information that is necessary to meet the information needs of the users of the interim financial report. SSAP 25 does clearly state, however, that it is not necessary to provide the level of detailed information as may be specified by other Accounting Standards for the purposes of the annual financial statements.

Listing Rules

Income statement and balance sheet

- 5.7 In addition to the requirements outlined in section 4, the Listing Rules specify certain matters of detail to be included in the condensed income statement and balance sheet of the enterprise.[App 16.40(1)] A full listing of these requirements is set out in the compliance checklist at Appendix II to this publication.
- 5.8 In general, the matters specified for disclosure correspond to the items one would expect to see presented on the face of the income statement and balance sheet under the requirements of SSAP 1 *Presentation of Financial Statements* and therefore duplicate the requirements discussed in section 4 of this publication. However, there are a number of matters of detail that merit specific mention.

'Exceptional' items

5.9 Separate disclosure is required of any items that are 'exceptional' because of size and incidence. [App 16.4(1)(b)] Following the 1999 revisions to SSAP 2 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, this terminology is somewhat outdated, but we suggest that it should be taken to refer to items that are "of such size, nature or incidence that their

disclosure is relevant to explain the performance of the enterprise for the period". [SSAP 2.15] In line with the revised practice under SSAP 2, such items should not be presented as a single line item on the face of the condensed income statement, but should be included within an appropriate income statement classification. The expectation is that such disclosure will be in the notes to the condensed interim financial statements, although there is nothing to preclude disclosure on the face of the income statement.

Taxation

- 5.10 As is generally required for annual financial statements, disclosure is required of the basis of computation of taxation and of the taxation attributable to associates and jointly controlled entities. [App 16.4(1)(e)]

Cost of goods sold

- 5.11 Disclosure is required of the cost of goods sold. [App 16.4(1)(j)] While this requirement will not present a problem for enterprises that present their condensed income statement using a functional analysis of expenditure, it will not be appropriate for those enterprises that present an analysis of expenses by nature in their annual financial statements. However, the notes to the Listing Rules allow that the items specified may be adapted so as to render them suitable for the enterprise's activities. [App 16 Note 4.1] Therefore, where an enterprise presents an analysis of expenses by nature in its annual financial statements, we consider that it is appropriate to use the same format in the interim report.

Segment information

- 5.12 The requirements specify disclosure of both turnover and profit by activity and geographical segment. [App 16.4(1)(n)] This goes beyond the requirements of SSAP 25/IAS 34 which allow that segment revenue and segment result should be presented either on the basis of business segments or geographical segments. [SSAP 25.16(g)] This inconsistency is mirrored in the requirements for segment reporting in annual financial statements and, unless further amendments are made to the Listing Rules, will result in the disclosure of segment information that goes beyond international practice.

- 5.13 The reporting of segment information by Hong Kong listed enterprises is currently in a transitional phase. SSAP 26 *Segment Reporting* was issued in February 2000 but is not effective until accounting periods commencing on or after 1 January 2001. This extended lead period has been allowed in recognition of the practical difficulties that enterprises may face in adapting their reporting systems to produce the financial data required by SSAP 26. As a further concession, the HKSA has allowed that, in the first year of application of SSAP 26, comparative segment data need not be restated if it is impracticable to do so.
- 5.14 The Listing Rules, on the other hand, allow no such concession and require comparative segment data to be presented in the first year of implementation of SSAP 26. Therefore, availing of the exemption from restating comparatives provided for in the Accounting Standard will result in a breach of the Listing Rules.

Balance sheet information

- 5.15 For balance sheet purposes, the items specified for disclosure are those generally presented on the face of the balance sheet. However, in addition, disclosure is required of the following: [App 16.4(2)(b)&(c)]
- the credit policy followed for debtors;
 - an aged analysis of accounts receivable; and
 - an aged analysis of accounts payable.
- 5.16 One would normally expect that the information referred to at paragraph 5.15 would be presented in the MDA. However, by its inclusion in the information required to be disclosed in the notes to the condensed interim financial statements, the Listing Rules effectively require that it be subject to review/audit to the extent that other financial information included in the interim report is subject to review/audit.
- 5.17 The balance sheet requirements also suggest the presentation of subtotals for 'net current assets/liabilities' and 'total assets less current liabilities'. [App 16.4(2)(d) & (e)] Again, this may be inconsistent with the format selected by the enterprise for presentation of its balance sheet in its annual

financial statements. If so, we consider that the enterprise is entitled to use the flexibility allowed for in Rule 4.1 to Appendix 16 (see paragraph 5.11) to adapt the presentation of its interim financial statements, and hence to omit these subtotals.

Management Discussion and Analysis

- 5.18 The enterprise is required to provide a discussion and analysis of the group's performance in the interim period. [App 16.40(2)]. A full discussion of the requirements in this regard is set out at Section 8 of this publication.

Additional requirements for banking companies

- 5.19 The requirements for listed banking companies vary from the general reporting requirements in two respects:
- the detailed income statement and balance sheet disclosures differ in line with the nature of the banking activities - they are separately listed in Appendix 15 to the Listing Rules; and
 - banking companies are subject to additional recommendations from the Hong Kong Monetary Authority (HKMA).
- 5.20 The additional disclosures recommended by the HKMA focus on the analysis of balance sheet items (e.g. advances, loans etc.) and other financial statistics such as capital adequacy ratios. Details of the disclosure requirements are set out in the compliance checklist at Appendix II to this publication.

Additional requirements for financial conglomerates

- 5.21 The revisions to the Listing Rules in May 2000 identified a new category of reporting enterprises, financial conglomerates, for which additional disclosure requirements are specified. A financial conglomerate is defined as a reporting enterprise that: [App 16.40(3) and 16.36]
- as at the end of the period, the net assets of its "financial business" represent more than 15% of consolidated net assets or, during the period under review, the net profit attributable to the shareholders of the financial business represents more than 15% of the net profit attributable to shareholders of the reporting enterprise; and

- as at the end of the period, its financial business has total assets of over HK\$1 billion or has customer deposits plus financial instruments held by the public of over HK\$300 million.
- 5.22 For the purpose of the definition set out in paragraph 5.21, financial business includes, but is not limited to, the business of securities trading; giving advice in connection with securities; commodities trading; leveraged foreign exchange trading; insurance activities; and money lending.
- 5.23 For interim reporting purposes, financial conglomerates are required to provide the same information as is required for their annual reports. [App 16.40(3)] These disclosures are listed in detail in the compliance checklist at Appendix II to this publication. The effect is to require financial conglomerates to comply with disclosure requirements comparable to those of banking companies. Therefore, comprehensive disclosures are specified in respect of various finance-related components in the income statement and balance sheet, and in respect of off-balance sheet exposures.
- 5.24 The disclosures for financial conglomerates are to be presented on the face of the primary statements or in the notes, except as regards the management of risks and segmental information (see item 3004 of the compliance checklist), which will be presented outside the financial statements, generally as part of the MDA.

Other information

- 5.25 There is a general requirement to disclose any supplementary information that is necessary for a reasonable appreciation of the interim results. [App 16.40(4)]
- 5.26 The SEHK may authorise the omission from an interim report of specified items of information if it considers that disclosure of such information would be contrary to the public interest or seriously detrimental to the enterprise. The SEHK will only authorise such omission if it is satisfied that the omission is not likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the securities in question. The listed enterprise or its representatives will be responsible for the correctness and relevance of the facts on which any application for such exemption is based. The SEHK may authorise the omission from an interim report of any other

information either on the grounds referred to above or if it considers such omission otherwise necessary or appropriate. [App 16 Rule 40.2]

- 5.27 There are a number of supplementary matters on which the Listing Rules require disclosure. They include the following:
- particulars of any purchase, sale or redemption by the enterprise or any of its subsidiaries of the enterprise's listed securities during the interim period [App 16.41(1)];
 - details of the interests of directors, chief executives and substantial shareholders in the equity or debt securities of the enterprise or any of its associated corporations [App 16.41(2)];
 - whether or not the accounting information contained in the interim report has been audited and, if so, the auditor's report should be reproduced in full in the interim report [App 16.43];
 - whether the interim report has been reviewed by the audit committee or the external auditors and details of any matter on which the audit committee (or the auditors, as the case may be) disagreed with an accounting treatment adopted [App 16.39]; and
 - a statement of compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules [App 16.44].
- 5.28 Details of the disclosures required for the items listed at paragraph 5.27 are set out in the compliance checklist at Appendix II to this publication.

6) BASIS OF PREPARATION OF INTERIM FINANCIAL INFORMATION

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Listing Rules

- 6.1 The Listing Rules specify that the interim report should comply with the requirements of SSAP 25 *Interim Financial Reporting* (or, in the case of an enterprise that prepares its financial statements in accordance with International Accounting Standards, with IAS 34 of the same title). [App 16.38] For practical purposes, SSAP 25 and IAS 34 are identical. Therefore, throughout this publication, references to accounting standards in this regard are restricted to SSAP 25.
- 6.2 The reporting enterprise should generally prepare its interim report in accordance with the same Accounting Standards and accounting policies that it adopted in the preparation of its most recent published financial statements or, for a newly listed company, in its prospectus. This rule will apply except where a change in accounting policy is required by an Accounting Standard issued during the interim period. [App 16 Note 37.4 & 16.38]
- 6.3 The requirements of the Listing Rules set out at paragraph 6.2 would appear to rule out any voluntary changes in accounting policies during the interim period. This is unnecessarily restrictive, since Accounting Standards generally allow for such voluntary changes if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise. [SSAP 2.38] We consider that it will be acceptable to make such voluntary changes, provided that:
- the conditions of SSAP 2 are met;
 - the changes are to be reflected in the next annual financial statements; and
 - appropriate disclosures are made.
- The principle will then be consistent with that specified in SSAP 25/IAS 34 (see paragraph 6.8).
- 6.4 The enterprise is required to disclose the accounting policies adopted in the preparation of the interim report. [App 16.37(6)]. However, to the extent that the accounting policies were applied in the most recently published annual financial statements (or, in the case of a newly listed enterprise, in its prospectus) such disclosure may be omitted. [App 16 Note 37.4]

- 6.5 Where there has been any change in accounting policy, particulars of the change and the reasons for it are required to be disclosed in the interim report. [App 16 Note 37.4] Where it is not practicable to quantify the effects of the change in accounting policy, or the effect is not significant, this fact should be stated. [App 16 Note 38.1]

SSAP 25

- 6.6 As discussed at paragraph 6.1, the SEHK requires that interim reports for enterprises listed on the Main Board should comply with SSAP 25 *Interim Financial Reporting* (or, in the case of enterprise's reporting under International Accounting Standards, IAS 34).
- 6.7 SSAP 25 also applies if an enterprise elects to publish an interim financial report in which it discloses that its financial information has been prepared in accordance with Statements of Standard Accounting Practice. It is important to note that enterprises who prepare annual financial statements in accordance with SSAPs are not precluded from preparing interim financial statements which do *not* comply with SSAPs, as long as the interim report does not state that it is SSAP compliant. [SSAP 25.1/2]

Accounting policies

- 6.8 The accounting policies applied in the interim financial statements should be consistent with those applied in the most recent annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. [SSAP 25.28]
- 6.9 Preparers of interim reports will therefore be required to consider any changes in accounting policy that will be applied for the next annual financial statements and to implement those for interim reporting purposes. Such changes will generally encompass:
- changes arising as a result of a new Accounting Standard that will be mandatory for the annual financial statements; and
 - voluntary changes that are proposed to be adopted for the annual financial statements on the basis that they will result in a more appropriate presentation of events or transactions.
- 6.10 A question arises as to whether it will be acceptable to adopt any changes in accounting policy in the annual financial statements if they have not been adopted at the interim reporting date. This issue may

arise where, for example, a new Accounting Standard is issued in the second half of the year that will not be mandatory for the annual financial statements but that the management wish to adopt before its effective date. Other voluntary changes may be proposed in the second half year where management has reconsidered the appropriateness of the enterprise's accounting policies and determined that a change will result in a more appropriate presentation of events or transactions. We consider that there is no prohibition on such voluntary changes in the second half year - although, if appropriate care has been taken in the preparation of the interim report, such occurrences should be rare.

Restatement of previously reported interim periods

- 6.11 A change in accounting policy, other than one for which the transitional provisions are specified by a new Accounting Standard, should be reflected by restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of prior financial years in accordance with SSAP 2 *Net Profit of Loss for the Period, Fundamental Errors and Changes in Accounting Policies*. [SSAP 25.43]

Compliance with Statements of Standard Accounting Practice

- 6.12 SSAP 25.19 requires that, where an interim financial report has been prepared in accordance with the requirements of that Standard, that fact should be disclosed. An interim financial report should not be described as complying with Statements of Standard Accounting Practice unless it complies with all of the requirements of each applicable SSAP and each applicable Interpretation.
- 6.13 The Standard clarifies that, where other Accounting Standards call for disclosures in financial statements, in that context they mean complete sets of financial statements of the type normally included in an annual financial report. Such disclosures are not required if the interim financial report includes only condensed financial statements and selected explanatory notes. [SSAP 25.18]
- 6.14 Therefore, the enterprise needs to consider compliance with Accounting Standards at two levels:

- compliance with all of the measurement rules contained in extant Statements of Standard Accounting Practice and Interpretations (as per paragraph 6.13, compliance with the disclosure requirements of Accounting Standards other than SSAP 25 is not required); and
- compliance with the disclosure requirements and the measurement principles for interim reporting purposes specified by SSAP 25.

If both of these conditions are met, then the interim financial statements can be described as complying with Statements of Standard Accounting Practice.

Consolidated vs parent's separate financial statements

- 6.15 If the most recent annual financial statements of an enterprise were prepared on a consolidated basis, the interim report is also prepared on a consolidated basis since the parent's separate financial statements would not provide information comparable with the most recent annual financial statements. If the annual financial statements included parent-only information, in addition to the consolidated financial statements, SSAP 25 neither requires nor prohibits the inclusion of such information in the interim financial report. [SSAP 25.14]

Materiality

- 6.16 SSAP 25.23 states:

"In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data."

- 6.17 While materiality judgements are always subjective, the overriding concern here is to ensure that an interim financial report includes all information that is relevant to understanding the financial position and performance of the enterprise during the financial period. Therefore, it is inappropriate to base quantitative estimates of materiality on projected annual figures.

**7) RECOGNITION AND MEASUREMENT RULES FOR INTERIM
FINANCIAL INFORMATION**

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General

- 7.1 The Listing Rules do not include any recognition or measurement rules for the purposes of interim reporting. The rules discussed in this section are therefore derived from SSAP 25.

Consistent accounting policies with annual statements

- 7.2 As discussed at section 6, enterprises are required to apply the same accounting policies for interim reporting purposes as were applied in their most recent annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an enterprise's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis. [SSAP 25.28]
- 7.3 In one sense, the above paragraph seems to suggest that each interim period should be treated as a stand-alone period. While in most ways this is true, the reference to the fact that the frequency of interim reporting should not affect the amounts reported for annual results draws attention to the fact that interim results are prepared with reference to items in previous interim periods such as changes in estimates. The three examples discussed at paragraphs 7.4 to 7.8 illustrate the principle.

Changes in estimates

- 7.4 The rules for recognising and measuring losses from inventory write-downs, restructurings or impairments in an interim period are the same as those for an annual period. However, if such items are recognised and measured in, say, the first half of a financial year and in the second half, the estimate changes, the original estimate is changed in the second interim period either by accrual of an additional amount or by reversal of the previously recognised amount. [SSAP 25.30(a)]
- 7.5 If changes in estimates have been necessary, the interim financial report is not retrospectively adjusted. However, the nature and amount of any significant changes in estimates must be disclosed either: [SSAP 25.16(d), 26, 35 and 36]

- in the annual report, if there has been no subsequent interim period financial report that has disclosed the change in estimate (as will generally be the case for Main Board listed enterprises); or
 - in the following interim period financial report of the same year (for example, where quarterly reports are prepared such as a Hong Kong GEM Listed enterprise).
- 7.6 Changes in estimates referred to in paragraph 7.5 should also be disclosed in the corresponding interim report for the following year, so that the comparative figures (which are not restated) will not be misleading. [SSAP 25.16(d)]

Deferral of costs at an interim date

- 7.7 A cost that does not meet the definition of an asset at the end of an interim period is *not* deferred on the balance sheet either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year. [SSAP 25.30(b)] Thus, when preparing interim financial statements, normal recognition and measurement practices are followed. Only costs incurred *after* the specific point in time at which the criteria for recognition of the particular class of asset are met are capitalised. Deferral of costs as assets in an interim balance sheet in the hope that the criteria will be met before the year end is prohibited. [SSAP 25 Appendix 2.8]

Tax estimates

- 7.8 When preparing the tax estimate to be included in an interim period, the tax expense is based on the best estimate of the weighted average *annual* income tax rate expected for the full financial year. Therefore, following the change in estimate example above, amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period if the estimate of the *annual* income tax rate changes. [SSAP 25.30(c)]

Valuation movements

- 7.9 One circumstance where the frequency of reporting may impact the results for the financial year is where the enterprise carries its property, plant and equipment at a revalued amount and updates that valuation at the interim reporting date. Under the requirements of SSAP 17 *Property, Plant and Equipment*, the valuation movement in that interim period will impact on the amount recognised as the

profit or loss on disposal loss in the second half of the year. Therefore, this would appear to conflict with the concept of not affecting the reported annual results. An answer to this apparent conflict would be to revalue at the date of any subsequent disposal, a practice which is gaining increasing support.

Use of estimates

- 7.10 SSAP 25 acknowledges that the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports. [SSAP 25.41]. Appendix 3 to the Standard provides the following examples of the use of estimates in interim periods:

Examples of the use of estimates for interim reporting purposes

Inventories: Full stock-taking and valuation procedures may not be required for inventories at interim dates, although it may be done at financial year end. It may be sufficient to make estimates at interim dates based on sales margins.

Classifications of current and non-current assets and liabilities: Enterprises may do a more thorough investigation for classifying assets and liabilities as current or non-current at annual reporting dates than at interim dates.

Provisions: Determination of the appropriate amount of a provision (such as a provision for warranties, environmental costs, and site restoration costs) may be complex and often costly and time-consuming. Enterprises sometimes engage outside experts to assist in the annual calculations. Making similar estimates at interim dates often entails updating of the prior annual provision rather than the engaging of outside experts to do a new calculation.

Income taxes: Enterprises may calculate income tax expense and deferred income tax liability at annual dates by applying the tax rate for each individual jurisdiction to measures of income for each jurisdiction. It is acknowledged that, while that degree of precision is desirable at interim reporting dates as well, it may not be achievable in all cases, and a weighted average or rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

Contingencies: The measurement of contingencies may involve the opinions of legal experts or other advisers. Formal reports from independent experts are sometimes obtained with respect to contingencies. Such opinions about litigation, claims, assessments, and other contingencies and uncertainties may or may not also be needed at interim dates.

Assets carried at valuation: An enterprise that has assets carried at revalued amounts needs to consider whether the valuations of these assets at an interim reporting date are significantly different from those shown at the last annual reporting date and make adjustments as appropriate.

Intercompany reconciliations: Some intercompany balances that are reconciled on a detailed level in preparing consolidated financial statements at financial year end might be reconciled at a less detailed level in preparing consolidated financial statements at an interim date.

Specialised industries: Because of complexity, costliness, and time, interim period measurements in specialised industries might be less precise than at financial year end. An example would be calculation of insurance reserves by insurance companies.

7.11 Each of these matters need to be considered in the context of the potential for material misstatement of the interim results. For example, take the case of investment or other properties carried at fair value. Although there is no absolute requirement to obtain valuations at the interim reporting date, enterprises are encouraged to use the evidence available to them to estimate market values or fair values at that date. In less turbulent times, this is not generally considered necessary since any movement in the asset value would be charged or credited to revaluation reserves. However, in times of volatile markets, property devaluations are such that they can result in significant charges to the income statement (following the elimination of revaluation reserves). Therefore, if the directors do not consider the valuations for interim reporting purposes, they risk material overstatements of results for the first half-year.

7.12 For investments in securities carried at fair value, valuations also need to be considered at interim reporting dates. For listed securities, valuations should be updated and accounted for under the rules of SSAP 24 *Accounting for Investments in Securities*, since the updated information is readily obtainable for minimal costs. For unlisted securities, the directors should at a minimum consider whether there is likely to be any material fluctuation in the fair value and, if so, what information they require to satisfy themselves that the interim results are not materially misstated.

Seasonal, cyclical or occasional revenues

7.13 Following on from the principle that the same accounting policies are used at interim and financial year ends, revenues that are received seasonally, cyclically or occasionally within a financial year may not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the financial year. [SSAP 25.37] Thus, an enterprise engaged in retailing does not divide forecasted revenue by two to arrive at its half year revenue figures. Instead, it reports its actual results for the six month period. If the retailer wishes to demonstrate the cyclicity of its revenues, it may include, as additional information, revenue for the 12 months ending on the interim reporting date and comparative information for the prior 12-month period.

Uneven costs

7.14 The rule on revenues also applies to costs. Costs that are incurred unevenly during an enterprise's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. [SSAP 25.39]

Additional examples

7.15 Appendix 2 of SSAP 25 contains 21 examples that illustrate the application of the recognition and measurement principles established in the Standard. The Appendix, which does not form part of the Standard, is intended to assist in clarifying the meaning of the Standard. The examples cited in the Appendix to SSAP 25 are repeated below for convenience.

Employer payroll taxes and insurance contributions

- 7.16 If employer payroll taxes or contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised in interim periods using an estimated average annual effective payroll tax or contribution rate, even though a large portion of the payments may be made early in the financial year. A common example is an employer payroll tax or insurance contribution that is imposed up to a certain maximum level of earnings per employee. For higher income employees, the maximum income is reached before the end of the financial year, and the employer makes no further payments through the end of the year.

Major planned periodic maintenance or overhaul

- 7.17 The cost of a planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is not anticipated for interim reporting purposes unless an event has caused the enterprise to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

Provisions

- 7.18 A provision is recognised when an enterprise has no realistic alternative but to make a transfer of economic benefits as a result of an event that has created a legal or constructive obligation. The amount of the obligation is adjusted upward or downward, with a corresponding loss or gain recognised in the income statement, if the enterprise's best estimate of the amount of the obligation changes.
- 7.19 SSAP 25 requires that an enterprise apply the same criteria for recognition and measuring a provision at an interim date as it would at the end of its financial year. The existence or non-existence of an obligation to transfer benefits is not a function of the length of the reporting period. It is a question of fact.

Year-end bonuses

- 7.20 The nature of year-end bonuses varies widely. Some are earned simply by continued employment during a time period. Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.

- 7.21 A bonus is anticipated for interim reporting purposes if, and only if:
- the bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the enterprise has no realistic alternative but to make the payments; and
 - a reliable estimate of the obligation can be made.

Contingent lease payments

- 7.22 Contingent lease payments can be an example of a legal or constructive obligation that are recognised as a liability. If a lease provides for contingent payments based on the lessee achieving a certain level of annual sales, an obligation can arise in the interim period of the financial year before the required annual level of sales has been achieved, if that required level of sales is expected to be achieved and the enterprise, therefore, has no realistic alternative but to make the future lease payment.

Intangible assets

- 7.23 An enterprise will apply the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual period. Costs incurred before the recognition criteria for an intangible asset are met are recognised as an expense. Costs incurred after the specific point in time at which the criteria are met are recognised as part of the cost of an intangible asset. "Deferring" costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the financial year is not justified.

Pensions

- 7.24 The pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

Vacations, holidays, and other short-term compensated absences

- 7.25 Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. An enterprise may measure the expected cost of and obligation for accumulating compensated absences at the amount the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. That principle

may also be applied at interim financial reporting dates. Conversely, an enterprise recognises no expense or liability for non-accumulating compensated absences at an interim reporting date, just as it recognises none at an annual reporting date.

Other planned but irregularly occurring costs

- 7.26 An enterprise's budget may include certain costs expected to be incurred irregularly during the financial year, such as charitable contributions and employee training costs. Those costs generally are discretionary even though they are planned and tend to recur from year to year. Recognising an obligation at an interim financial reporting date for such costs that have not yet been incurred generally is not consistent with the definition of a liability.

Measuring interim income tax expense

- 7.27 The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.
- 7.28 This is consistent with the basic concept set out in paragraph 28 of SSAP 25 that the same accounting recognition and measurement principles should be applied in an interim financial report as are applied in annual financial statements. Income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings, i.e. the estimated average annual effective income tax rate. That estimated average annual rate would reflect a blend of the progressive tax rate structure expected to be applicable to the full year's earnings including enacted or substantively enacted changes in the income tax rates scheduled to take effect later in the financial year. The estimated average annual income tax rate would be re-estimated on a year-to-date basis, consistent with paragraph 28 of SSAP 25 (see paragraph 7.2). Paragraph 16(d) of SSAP 25 requires disclosure of a significant change in estimate.
- 7.29 To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. Similarly, if different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries), to the extent practicable, a separate rate is

applied to each individual category of interim period pre-tax income. While that degree of precision is desirable, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

- 7.30 To illustrate the application of the foregoing principle, an enterprise reporting quarterly expects to earn HK\$10,000 pre-tax each quarter and operates in a jurisdiction with a tax rate of 20 per cent on the first HK\$20,000 of annual earnings and 30 per cent on all additional earnings. Actual earnings match expectations. The following table shows the amount of income tax expense that is reported in each quarter:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (HK\$)	2,500	2,500	2,500	2,500	10,000

HK\$10,000 of tax is expected to be payable for the full year on HK\$40,000 of pre-tax income.

- 7.31 As another illustration, an enterprise reports quarterly, earns HK\$15,000 pre-tax profit in the first quarter but expects to incur losses of HK\$5,000 in each of the three remaining quarters (thus having zero income for the year), and operates in a jurisdiction in which its estimated average annual income tax rate is expected to be 20 per cent. The following table shows the amount of income tax expense that is reported in each quarter:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (HK\$)	3,000	(1,000)	(1,000)	(1,000)	0

Difference in financial reporting year and tax year

- 7.32 If the financial reporting year and the income tax year differ, income tax expense for the interim periods of that financial reporting year is measured using separate weighted average estimated effective tax rates for each of the income tax years applied to the portion of pre-tax income earned in each of those income tax years.

- 7.33 To illustrate, an enterprise's financial reporting year ends 30 June and it reports quarterly. Its taxable year ends 31 December. For the financial year that begins 1 July, Year 1 and ends 30 June, Year 2, the enterprise earns HK\$10,000 pre-tax each quarter. The estimated average annual income tax rate is 30 per cent in Year 1 and 40 per cent in Year 2.

	Quarter Ending 30 September Year 1	Quarter Ending 31 December Year 1	Quarter Ending 31 March Year 2	Quarter Ending 30 June Year 1	Year Ending 30 June Year 2
Tax expense (HK\$)	3,000	3,000	4,000	4,000	14,000

Tax credits

- 7.34 Some tax jurisdictions give taxpayers credits against the tax payable based on amounts of capital expenditures, exports, research and development expenditures, or other bases. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income tax rate, because those credits are granted and calculated on an annual basis under most tax laws and regulations. On the other hand, tax benefits that relate to a one-time event are recognised in computing income tax expense in that interim period, in the same way that special tax rates applicable to particular categories of income are not blended into a single effective annual tax rate. Moreover, in some jurisdictions tax benefits or credits, including those related to capital expenditures and levels of exports, while reported on the income tax return, are more similar to a government grant and are recognised in the interim period in which they arise.

Tax loss and tax credit carrybacks and carryforwards

- 7.35 The benefits of a tax loss carryback are reflected in the interim period in which the related tax loss occurs. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset. A corresponding reduction of tax expense or increase of tax income is also recognised.
- 7.36 In accordance with SSAP 12 *Accounting for Deferred Tax*, a deferred tax asset should only be recognised for the carry forward of unused tax losses and unused tax credits to the extent that there is a reasonable expectation of sufficient future taxable income to ensure recoverability of the deferred tax

asset. In particular, the recognition of deferred tax assets should normally be discontinued when an operating loss occurs or recurs. Under such circumstances, it may not be appropriate to carry forward as an asset the future tax benefits from unused tax losses and unused tax credits in the balance sheet. The Appendix of SSAP 12 sets out circumstances where deferred tax relating to unused tax losses and unused tax credits may be treated as recoverable. Those circumstances are considered at the end of each interim period and, if they are met, the effect of the tax loss carryforward is reflected in the computation of the estimated average annual effective income tax rate.

- 7.37 To illustrate, an enterprise that reports quarterly has an operating loss carryforward of HK\$10,000 for income tax purposes at the start of the current financial year for which a deferred tax asset has not been recognised. The enterprise earns HK\$10,000 in the first quarter of the current year and expects to earn HK\$10,000 in each of the three remaining quarters. Excluding the carryforward, the estimated average annual income tax rate is expected to be 40 per cent. Tax expense is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (HK\$)	3,000	3,000	3,000	3,000	12,000

Contractual or anticipated purchase price changes

- 7.38 Volume rebates or discounts and other contractual changes in the prices of raw materials, labour, or other purchased goods and services are anticipated in interim periods, by both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated but discretionary rebates and discounts are not anticipated because the resulting asset or liability would not satisfy the conditions in the Framework that an asset must be a resource controlled by the enterprise as a result of a past event and that a liability must be a present obligation whose settlement is expected to result in an outflow of resources.

Depreciation and amortisation

- 7.39 Depreciation and amortisation for an interim period is based only on assets owned during that interim period. It does not take into account asset acquisitions or dispositions planned for later in the financial year.

Inventories

- 7.40 Inventories are measured for interim financial reporting by the same principles as at financial year end. SSAP 22 *Inventories* establishes standards for recognising and measuring inventories. Inventories pose particular problems at any financial reporting date because of the need to determine inventory quantities, costs, and net realisable values. Nonetheless, the same measurement principles are applied for inventories at interim dates. To save cost and time, enterprises often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates. Following are examples of how to apply the net realisable value test at an interim date and how to treat manufacturing variances at interim dates.

Net realisable value of inventories

- 7.41 The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates.

Interim period manufacturing cost variances

- 7.42 Price, efficiency, spending, and volume variances of a manufacturing enterprise are recognised in income at interim reporting dates to the same extent that those variances are recognised in income at financial year end. Deferral of variances that are expected to be absorbed by year end is not appropriate because it could result in reporting inventory at the interim date at more or less than its portion of the actual cost of manufacture.

Foreign currency translation gains and losses

- 7.43 Foreign currency translation gains and losses are measured for interim financial reporting by the same principles as at financial year end.
- 7.44 SSAP 11 *Foreign Currency Translation* specifies how to translate the financial statements for foreign operations into the reporting currency, including guidelines for using historical, average, or closing foreign exchange rates and guidelines for including the resulting adjustments in income or in equity. Consistent with SSAP 11, the actual average and closing rates for the interim period are used. Enterprises do not anticipate some future changes in foreign exchange rates in the remainder of the current financial year in translating foreign operations at an interim date.

- 7.45 If SSAP 11 requires that translation adjustments be recognised as income or as expenses in the period in which they arise, that principle is applied during each interim period. Enterprises do not defer some foreign currency translation adjustments at an interim date if the adjustment is expected to reverse before the end of the financial year.

Valuations

- 7.46 In general, investment properties are required by SSAP 13 *Investment Properties* to be included in the balance sheet at their open market value, based on a period-end valuation carried out annually by professionally qualified valuers. Accordingly, an enterprise will consider the valuations of its investment properties held at the end of an interim period and make appropriate adjustments in accordance with paragraph 17 of SSAP 13 if the changes in value of the investment properties since the last financial year are significant. However, SSAP 25 does not require revaluation to be made by professionally qualified valuers at the end of each interim period.
- 7.47 SSAP 17 *Property, Plant and Equipment* allows an item of property, plant and equipment to be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent depreciation. It also provides that a revaluation should be made if the carrying amount of a revalued asset differs materially from that which would be determined using fair value at the balance sheet date. Accordingly, the same principles on revaluation would apply to items of property, plant and equipment held at the end of an interim period as those held at the end of a financial year.
- 7.48 SSAP 25 does not require an enterprise to arrange for a revaluation to be made by professionally qualified valuers on the revalued assets held at the end of each interim period. Rather, an enterprise will carry out a review for indications of significant changes in the value of these assets since the end of the most recent financial year to determine whether any adjustments are needed.

Impairment of assets

- 7.49 SSAP 17 *Property, Plant and Equipment* requires that an impairment loss be recognised if the recoverable amount has declined below carrying amount. SSAP 16 *Research and Development Costs* imposes a similar requirement with respect to capitalised development costs.

- 7.50 SSAP 25 requires that an enterprise apply the same impairment testing, recognition, and reversal criteria at an interim date as it would at the end of its financial year. That does not mean, however, that an enterprise must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an enterprise will review for indications of significant impairment since the end of the most recent financial year to determine whether such a calculation is needed.

8) MANAGEMENT DISCUSSION AND ANALYSIS

PAGES 67-76

- 8.1 The Listing Rules require that:
- “A listed issuer shall include in its interim report.....a discussion and analysis of the group’s performance in the interim period...”[App 40.2]
- 8.2 The matters referred to in the revised Listing Rules for discussion in the Management Discussion and Analysis (MDA) largely repeat the recommendations of the previous version of the Rules. However, a key difference is that the revised Listing Rules specify that the MDA should comment on each of the factors listed, rather than suggesting them as matters for consideration.
- 8.3 The revisions to the Listing Rules have also introduced additional matters for disclosure. These are details of charges on group assets, details of future capital expenditure and funding plans, gearing ratios, exposure to exchange rate fluctuations and related hedges, and contingent liabilities.
- 8.4 For interim reporting purposes, the Listing Rules specify that, where the current information in relation to the matters discussed in the MDA has not changed materially from the information disclosed in the most recent published annual report, a statement to this effect may be made and no additional disclosure is required.
- 8.5 The introduction of additional headings for the MDA, as well as the more onerous requirement to refer to each of the points listed, should result in more meaningful discussion and analysis. In the past, the SEHK had noted their disappointment at the quality of analysis and discussion provided. As a result, the ‘optional’ guidance has become a mandatory checklist of points to be addressed.
- 8.6 In recent years, the focus of users of externally reported financial information has been re-directed to the MDA in search of a detailed and analytical review of operations and the financial state of affairs. Users look to the MDA for transparent and comprehensive disclosure of events during the reporting period and the position at the end of the reporting period. The MDA is now seen as a key means by which the directors can demonstrate effective corporate governance.

- 8.7 In general terms, by focusing on significant changes in the group's performance, the MDA should:
- include any significant information needed for investors to make an informed assessment of the trend in its activities and results;
 - identify and explain any special factor which has influenced its activities or results;
 - provide a comparison with the corresponding period in the preceding financial year; and
 - give an indication of the group's prospects for the current financial year.
- 8.8 In addition to the requirements of the Listing Rules, there are two other useful sources of guidance for directors in formulating the MDA. These are the SEHK's *Reference for Disclosure in Annual Reports* and the HKSA's *A Guide for Directors' Business Review in the Annual Report* (although both are directed towards annual reports, they will also be helpful for considering the matters to be included in the MDA for interim reporting purposes).
- 8.9 The SEHK's *Reference for Disclosure in Annual Reports*, published in September 1999, sets out examples of disclosure considered to be useful for investors' decision making. In preparing the publication, the SEHK carried out a comprehensive review of disclosure practices adopted by leading local and international listed enterprises operating in a number of industry sectors which are important in the context of Hong Kong listed enterprises. The SEHK also reviewed the listing rules requirements of some overseas exchanges in respect of disclosure suggested in annual reports. Based on these reviews, the disclosures in the publication are intended to serve as a useful reference for listed issuers who wish to enhance the quality and usefulness of information provided in their annual accounts. The disclosures provided are intended only as examples of good practice, and do not form part of the mandatory requirements of the Listing Rules.
- 8.10 The publication includes example disclosures of a general nature, intended for consideration by all listed companies. In addition, for 14 industries identified as being important in the Hong Kong context, specific disclosures particularly appropriate for each industry are included. The industries dealt with are airline, railroad operator, power plant, pharmaceutical, iron and steel, petrochemical,

telecommunications, infrastructure, retailing, construction, property development and investment, food and beverage, industrials and hotels. The *Reference for Disclosures in Annual Reports* is available on the SEHK's website (www.sehk.com.hk)

8.11 The HKSA's *A Guide for Directors' Business Review in the Annual Report* was published in November 1998, prompted by a desire to assist and encourage listed enterprises in improving the quality of discussion included in the MDA. Under the framework suggested by this Guide, it is recommended that the Business Review be divided into an Operating Review and a Financial Review. Following this guidance, illustrative contents for an MDA in an interim report are set out below. The minimum contents of the MDA, based on the requirements of the Listing Rules, are highlighted in bold italics.

The Operating Review

Review area	Discussion and Analysis (focussing on changes in the interim period)
<p>Operating results for the period</p>	<p>Highlight the significant changes in operating performance during the period commenting on:</p> <ul style="list-style-type: none"> • significant changes in <i>segmental information</i> and their effect on results for the period, covering <i>changes in the industry segment, developments within the segment and their effect on the results of that segment</i>; • changes in the industry or the environment in which the business operates i.e. <i>changes in market conditions, new products and services introduced or announced and their impact on the group's performance</i>; and • developments within the business and their effect on the interim results. <p>Discuss <i>material acquisitions and disposals of subsidiaries and associates</i> during the interim period. Where a seasonal business is acquired during the interim period, explain where the results are not indicative of those for a full year. Disclose the underlying reasons for disposals and, in particular, include fair comment on the reasons for disposals, e.g. in order to cut losses, no longer considered to be strategic etc.</p> <p>Discuss other special factors that have affected the results for the interim period. This includes overall influences, the effect of which cannot be quantified, as well as specific abnormal non-recurring items.</p>

Employees	Where applicable, provide details of changes in the number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes.
Dynamics of the business	<p>Discuss changes in the main positive and negative factors and influences that may have major effects on future operations and results, whether or not they were significant in the interim period.</p> <p>Identify and comment on the management of principal risks and uncertainties in the main lines of business, and describe, in quantitative terms, the potential impact of those risks on the results.</p>
Prospects and plans for the future	<p><i>Discuss changes in the state of the group's order book (where applicable) and prospects for new business, including new products and services introduced or announced.</i></p> <p><i>Discuss changes in significant investments held, their performance during the interim period and their future prospects.</i></p> <p><i>Discuss future plans for material investments or capital assets and their expected sources of funding.</i></p> <p>The discussion should indicate the major business segments and geographical areas accounting for a material portion of the total, and major projects involved.</p>
<i>Post balance sheet date events</i>	Indicate and discuss the impact of post balance sheet date events on the enterprise's current and future operating and financial position.

The Financial Review

Review area	Discussion and Analysis (focusing on changes in the interim period)
Attributable return to shareholders	<p>Discuss the overall return attributable to shareholders, in terms of dividends/dividend policy and increases in shareholders' funds, and comment on:</p> <ul style="list-style-type: none"> • contributions from operating performance of various business units; • significant gains and losses realised, including abnormal non-recurring items; • movements to/from reserves; and • comparison between results for the interim period and dividends, both in total and in per share terms.
Accounting policies/changes in accounting policies	<p>Indicate and explain any subjective judgements and arbitrary allocations to which the interim financial information is particularly sensitive.</p> <p>Disclose the reasons for any changes in accounting policies and their impact on the interim financial information, and for any significant departure from accounting principles generally accepted in Hong Kong.</p>
Capital structure and treasury policy	<p><i>Discuss changes in the capital (equity and debt) structure in terms of:</i></p> <ul style="list-style-type: none"> • <i>issue of equity capital;</i> • <i>maturity profile of debts;</i> • <i>type of capital (financial) instruments used; and</i> • <i>currency and interest rate structure.</i> <p>This discussion should include comment on relevant ratios, such as interest cover and debt/equity ratio and management's intended financial targets.</p>

	<p>State the capital funding and treasury policies and objectives, which should cover:</p> <ul style="list-style-type: none"> • management of interest rate risk; • management of maturity and average life of debts; • management of exchange rate risk; and • management of surplus cash. <p>Discuss the implementation of and deviation from those policies in the interim period, in terms of:</p> <ul style="list-style-type: none"> • the manner in which treasury activities are controlled; • <i>the currencies in which borrowings are made and in which cash and cash equivalents are held;</i> • <i>the extent to which borrowings are at fixed interest rates;</i> • <i>the use of financial instruments for hedging and speculative purposes;</i> • <i>the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments;</i> and • the use of significant funds for new or non-core business. <p><i>Provide details of exposure to fluctuations in exchange rates and any related hedges.</i></p> <p>Explain the purposes and effect of major financing transactions undertaken up to the date of approval of the interim report.</p> <p>Discuss the effect of interest cost on profits, and the potential impact of interest rate changes.</p> <p>State whether the directors have obtained share issue and share buyback mandates from shareholders, and disclose the reasons for share buybacks.</p>
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	<p><i>Provide details of charges on group assets.</i></p> <p>Indicate covenants with lenders which restrict the use of credit facilities, and any negotiation with the lenders on the above covenants, as well as any breaches of such covenants that have occurred or are expected to occur, together with measures taken or proposed to remedy the situation.</p>
Going concern	Discuss the going concern status of the company.
Off-balance sheet items	Comment on the impact and resources of off-balance sheet assets and <i>liabilities</i> to the group.

9) REVIEWS OF INTERIM FINANCIAL REPORTS

PAGES 77-82

Requirements of the Listing Rules

9.1 The following are the requirements of the Listing Rules as regards reviews of interim financial reports:

“A listed issuer’s audit committee must review the interim report. Where an audit committee has not been formed, the listed issuer’s auditors shall review the interim report.” [App 16.39]

“It is the responsibility of the audit committeeof the listed issuer to determine the scope and extent of the review. In reviewing an interim report, the audit committee.....may refer to relevant statements of auditing standards and auditing guidelines in relation to review of interim financial reports for guidance.” [App 16 Note 39.1]

Scope of review by audit committee

9.2 It is one of the audit committee’s core responsibilities to carry out an independent review of all financial reports issued by the enterprise, in order to assist the board in ensuring that such financial reports present fairly the matters reported and comply with all necessary disclosure requirements.

9.3 Significantly, the suggestion by the Stock Exchange that audit committees may refer to auditing standards and guidelines in carrying out their review of an interim financial report seems to reflect an expectation that, in the future, interim financial reports will be subject to a higher level of review, implying increased responsibility for audit committee members.

9.4 In order to assist the audit committee in determining the scope of its review, we have set out in Appendix III a series of questions that the audit committee might ask in carrying out their review of an interim financial report. These questions are intended to illustrate the type of enquiries which the audit committee may make, addressing such issues as:

- the appropriateness and consistent application of significant accounting policies;
- judgemental issues and accounting estimates;
- the adequacy and understandability of disclosures;
- the internal consistency of the interim financial report;
- material, non-recurring items; and
- any concerns raised by the auditors.

9.5 While many of these questions will be widely applicable, the audit committee will of course need to be satisfied that its interim review is properly focussed on the issues which are of particular relevance to the enterprise's interim financial report. Accordingly, these illustrative questions do not provide a comprehensive framework for a review by the audit committee of an interim financial report. In carrying out its review, the audit committee should appropriately document its procedures and findings which support its conclusions, and evidence the scope and extent of its review.

Interim review by the auditors

9.6 In July 2000, Statement of Auditing Standards 700 *Engagements to Review Interim Financial Reports* (SAS 700) was issued by the HKSA. The purpose of SAS 700 is to provide standards and guidance to auditors in reviewing and reporting on interim financial reports.

9.7 The objective of a review of an interim financial report is to enable the auditors to report to the board of directors stating whether, on the basis of the review procedures carried out, anything has come to the auditors' attention that causes the auditors to believe that material modifications should be made to the interim financial report. In particular, an interim review by the auditors can provide moderate assurance that the interim financial report has been prepared in accordance with the requirements of SSAP 25 *Interim Financial Reporting* and with the relevant provisions of the Listing Rules.

9.8 An interim review differs from an audit in terms of the extent of the procedures performed and the level of assurance provided. An audit involves extensive procedures designed to provide the auditors with sufficient evidence to provide high (but not absolute) assurance regarding the reliability of the financial statements. While an interim review involves the application of audit skills and techniques, the procedures performed are typically not as extensive and, accordingly, an interim review provides a moderate level of assurance that the interim financial report is free from material misstatement.

9.9 An interim review by the auditors is focused primarily on enquiries of management and the application of analytical procedures to the interim financial data so as to assess whether accounting policies and

presentation in the interim financial report have been consistently applied unless otherwise disclosed. In particular, the auditors will design their interim review procedures to focus on the recognition, measurement and presentation issues discussed in SSAP 25. An interim review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions.

9.10 Prior to issuing their interim review report, the auditors would generally communicate their findings to the board of directors and the audit committee.

9.11 An unmodified review report (the model interim report at Appendix I provides an example) contains a review conclusion expressed in terms of so-called 'negative assurance' as follows:

"On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended".

9.12 Under SAS 700, the auditors will modify their interim review report where they conclude that material modifications to the interim financial report either are or may be required to be made. Such modified interim review reports will arise where the auditors disagree, either about an adopted accounting treatment or about the extent of disclosure in the interim financial report, or where the auditors encounter a material limitation in the scope of their review work. Modification of the interim review report will also be required where there is fundamental uncertainty, e.g. a significant level of concern about the company's ability to continue as a going concern.

Enhanced assurance for the board and the audit committee

9.13 The review by the audit committee is a core internal procedure which assists the board in preparing the interim financial report.

9.14 The review by the company's auditors performed in accordance with SAS 700 brings independent professional challenge and scrutiny and, importantly given the increasing complexity of financial reporting rules, is designed to focus on the key recognition, measurement and presentation issues. In

this way, the review by the auditors provides boards and audit committees with enhanced assurance that the interim financial report is free from material misstatement and has been properly prepared in accordance with the requirements of SSAP 25 and with the relevant provisions of the Listing Rules.

9.15 Accordingly, it is our expectation that a review of the interim financial report by the auditors will prove to be an integral part of the process by which boards and audit committees satisfy themselves as to the integrity and reliability of interim financial reports issued under the Listing Rules.

APPENDIX I

MODEL INTERIM REPORT

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KOWLOON GAAP LIMITED

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Source	Checklist	KOWLOON GAAP LIMITED
App 16.40(2) MA.1(xiii)	2023/4	<p data-bbox="578 289 1292 317">MANAGEMENT DISCUSSION AND ANALYSIS (MDA)</p> <p data-bbox="578 359 1442 489"><i>Listed enterprises are required to present in their interim reports a separate discussion and analysis of the enterprise's performance during the interim period and the material factors underlying its results and financial position.</i></p> <p data-bbox="578 531 1442 625"><i>The recent revisions to the Listing Rules require that the MDA address each of the specific matters set out in paragraph 40 of Appendix 16 to the Listing Rules:</i></p> <ol data-bbox="578 667 1442 1518" style="list-style-type: none"> <li data-bbox="578 667 1044 695">(1) <i>the group's liquidity and financial resources.</i> <li data-bbox="578 726 1442 800">(2) <i>the capital structure of the group in terms of maturity profile of debt and obligation, type of capital instruments used, currency and interest rate structure.</i> <li data-bbox="578 831 1442 894">(3) <i>the state of the group's order book (where applicable) and prospects for new business including new products and services introduced or announced;</i> <li data-bbox="578 926 1442 978">(4) <i>significant investments held, their performance during the financial year and their future prospects;</i> <li data-bbox="578 1010 1442 1062">(5) <i>details of material acquisitions and disposals of subsidiaries and associated companies in the course of the financial year;</i> <li data-bbox="578 1094 976 1121">(6) <i>comments on segmental information.</i> <li data-bbox="578 1152 1442 1205">(7) <i>details of the number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes;</i> <li data-bbox="578 1236 959 1264">(8) <i>details of charges on group assets;</i> <li data-bbox="578 1295 1442 1348">(9) <i>details of future plans for material investments or capital assets and their expected sources of funding in the coming year;</i> <li data-bbox="578 1379 773 1407">(10) <i>gearing ratio;</i> <li data-bbox="578 1438 1276 1465">(11) <i>exposure to fluctuations in exchange rates and any related hedges; and</i> <li data-bbox="578 1497 976 1524">(12) <i>details of contingent liabilities, if any.</i>

Source	Checklist	
		<p data-bbox="578 184 938 214">KOWLOON GAAP LIMITED</p> <p data-bbox="578 285 1442 422"><i>For interim reporting purposes, for those items where the current information has not changed materially from the information disclosed in the most recent published annual report, a statement to this effect may be made and no additional disclosure is required.</i></p> <p data-bbox="578 457 1442 525"><i>Additional sources of reference to assist the directors in formulating the MDA are:</i></p> <ul data-bbox="578 562 1442 735" style="list-style-type: none"> <li data-bbox="578 562 1442 667">• <i>A Guide for Directors' Business Review in the Annual Report issued by the Corporate Governance Committee of the Hong Kong Society of Accountants; and</i> <li data-bbox="578 699 1442 735">• <i>Reference for Disclosure in Annual Reports issued by the SEHK.</i> <p data-bbox="578 772 1442 974"><i>We do not consider that it is appropriate to present a 'model' for the MDA. The analysis should focus on the key issues for the particular reporting enterprise. In Section 8 of this Guide, we have provided illustrative contents for the formulation of the MDA, by combining the framework suggested by the HKSA Guide and the specific requirements of the Listing Rules.</i></p>

Source	Checklist	KOWLOON GAAP LIMITED																																																		
App 16.41(1) App 16.10(4)	2025	<p>ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES</p> <p>Purchase, Sale or Redemption of the Company's Listed Securities</p> <p>During the six months ended 31 July 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.</p>																																																		
App 16.41(2) App 16.13(1)	2026	<p>DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, WARRANTS AND OPTIONS</p> <p>(i) Shares and warrants</p> <p>At 31 July 2000, the interests of the directors and the chief executive of the Group in the share capital and the warrants of the company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (SDI Ordinance) were as follows:</p> <p><u>Number of ordinary shares and warrants held</u></p> <table border="1" data-bbox="576 1081 1388 1585"> <thead> <tr> <th data-bbox="576 1144 787 1186"><u>Name of directors</u></th> <th data-bbox="885 1081 998 1144"><u>Personal interests</u></th> <th data-bbox="1023 1081 1128 1144"><u>Family interests</u></th> <th data-bbox="1144 1081 1266 1144"><u>Corporate interests</u></th> <th data-bbox="1291 1081 1388 1144"><u>Other interests</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="625 1218 755 1249">A.B. China</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="625 1260 722 1291">- shares</td> <td data-bbox="925 1260 950 1291">X</td> <td data-bbox="1055 1260 1079 1291">X</td> <td data-bbox="1201 1260 1218 1291">-</td> <td data-bbox="1291 1260 1388 1291">(Note 2)</td> </tr> <tr> <td data-bbox="625 1291 755 1323">- warrants</td> <td data-bbox="925 1291 950 1323">X</td> <td data-bbox="1055 1291 1079 1323">X</td> <td data-bbox="1201 1291 1218 1323">-</td> <td data-bbox="1331 1291 1347 1323">-</td> </tr> <tr> <td data-bbox="625 1354 755 1386">D.E. Fong</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="625 1396 722 1428">- shares</td> <td data-bbox="925 1396 950 1428">X</td> <td data-bbox="1023 1396 1128 1428">(Note 1)</td> <td data-bbox="1201 1396 1218 1428">-</td> <td data-bbox="1331 1396 1356 1428">X</td> </tr> <tr> <td data-bbox="625 1428 755 1459">- warrants</td> <td data-bbox="925 1428 950 1459">X</td> <td data-bbox="1055 1428 1079 1459">X</td> <td data-bbox="1201 1428 1218 1459">-</td> <td data-bbox="1331 1428 1356 1459">X</td> </tr> <tr> <td data-bbox="625 1491 722 1522">G.H. Ip</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="625 1533 722 1564">- shares</td> <td data-bbox="925 1533 950 1564">X</td> <td data-bbox="1055 1533 1079 1564">X</td> <td data-bbox="1153 1533 1258 1564">(Note 3)</td> <td data-bbox="1331 1533 1356 1564">X</td> </tr> <tr> <td data-bbox="625 1564 755 1596">- warrants</td> <td data-bbox="925 1564 950 1596">X</td> <td data-bbox="1055 1564 1079 1596">X</td> <td data-bbox="1153 1564 1258 1596">(Note 3)</td> <td data-bbox="1331 1564 1356 1596">X</td> </tr> </tbody> </table> <p>NOTES:</p> <ol data-bbox="576 1701 1448 1869" style="list-style-type: none"> The family interests of [X] shares represent the interests of the wife of D.E. Fong. A.B. China is a trustee [beneficiary] of CDE trust which owns [X] shares of Listed Group Limited. 	<u>Name of directors</u>	<u>Personal interests</u>	<u>Family interests</u>	<u>Corporate interests</u>	<u>Other interests</u>	A.B. China					- shares	X	X	-	(Note 2)	- warrants	X	X	-	-	D.E. Fong					- shares	X	(Note 1)	-	X	- warrants	X	X	-	X	G.H. Ip					- shares	X	X	(Note 3)	X	- warrants	X	X	(Note 3)	X
<u>Name of directors</u>	<u>Personal interests</u>	<u>Family interests</u>	<u>Corporate interests</u>	<u>Other interests</u>																																																
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D.E. Fong																																																				
- shares	X	(Note 1)	-	X																																																
- warrants	X	X	-	X																																																
G.H. Ip																																																				
- shares	X	X	(Note 3)	X																																																
- warrants	X	X	(Note 3)	X																																																

Source	Checklist	KOWLOON GAAP LIMITED								
		<p>3. G.H. Ip beneficially owns [X] shares of HK\$[X] each in XY Limited, representing approximately [X] per cent of the issued share capital of that company, which in turn owns [X] shares and [X] warrants of Listed Group Limited. G.H. Ip also has an option to acquire a further [X] shares of HK\$[X] each in XY Limited up to [, 200A].</p> <p>(ii) <u>Options</u></p> <p>The directors had personal interests in share options to subscribe for shares in the Company at an exercise price of HK\$[X] per share, exercisable from [, 199Y] to [, 200B] as follows:</p> <table data-bbox="584 724 1282 934"> <thead> <tr> <th data-bbox="584 724 1136 798">Name of <u>directors</u></th> <th data-bbox="1144 724 1282 798">At 1/2/00 and 31/7/00</th> </tr> </thead> <tbody> <tr> <td data-bbox="584 829 722 861">A.B. China</td> <td data-bbox="1201 829 1226 861">X</td> </tr> <tr> <td data-bbox="584 865 706 896">D.E. Fong</td> <td data-bbox="1201 865 1226 896">X</td> </tr> <tr> <td data-bbox="584 900 682 932">G.H. Ip</td> <td data-bbox="1201 900 1226 932">X</td> </tr> </tbody> </table> <p>Substantial Shareholders</p>	Name of <u>directors</u>	At 1/2/00 and 31/7/00	A.B. China	X	D.E. Fong	X	G.H. Ip	X
Name of <u>directors</u>	At 1/2/00 and 31/7/00									
A.B. China	X									
D.E. Fong	X									
G.H. Ip	X									
App 16.41(2) App 16.13(3)	2028	<p>As at 31 July 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses the following company as having an interest of 10% or more in the issued share capital of the Company:</p> <table data-bbox="722 1228 1136 1270"> <tbody> <tr> <td data-bbox="722 1228 990 1270">Group Holdings Limited</td> <td data-bbox="1031 1228 1136 1270">X shares</td> </tr> </tbody> </table>	Group Holdings Limited	X shares						
Group Holdings Limited	X shares									
App 16.44	2029	<p>Code of Best Practice</p> <p>None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 July 2000, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.</p>								

Source	Checklist	
		<p data-bbox="578 184 938 216">KOWLOON GAAP LIMITED</p> <p data-bbox="578 285 1177 352">INDEPENDENT REVIEW REPORT To the Board of Directors of Kowloon GAAP Limited</p> <p data-bbox="578 426 734 457">Introduction</p> <p data-bbox="578 493 1442 560">We have been instructed by the Company to review the interim financial report set out on pages x to y.</p> <p data-bbox="578 598 899 630">Directors' responsibilities</p> <p data-bbox="578 665 1442 867">The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.</p> <p data-bbox="578 905 883 936">Review work performed</p> <p data-bbox="578 972 1442 1346">We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.</p> <p data-bbox="578 1383 813 1415">Review conclusion</p> <p data-bbox="578 1451 1442 1554">On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 July 2000.</p> <p data-bbox="578 1728 935 1829"><i>Deloitte Touche Tohmatsu</i> Certified Public Accountants Hong Kong, 25 September 2000</p>

<u>Source</u>	<u>Checklist</u>	<u>KOWLOON GAAP LIMITED</u>		
App 16.40(1) App 16.4(1)	2016	<u>CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 JULY 2000</u>		
		<u>NOTES</u>	Six months ended <u>31/7/00</u> <u>31/7/99</u> (unaudited) (unaudited) HK\$'000 HK\$'000	
			513,824	352,601
		4	(434,681)	(303,444)
			79,143	49,157
			8,650	6,037
			(10,032)	(5,540)
			(32,896)	(28,818)
			(695)	(1,404)
		5	(9,150)	-
			35,020	19,432
			(14,749)	(10,403)
			4,818	1,669
			1,564	1,043
			3,997	-
			30,650	11,741
		7	(3,349)	(2,305)
			27,301	9,436
			(6,596)	(2,660)
			20,705	6,776
		8	(5,560)	-
			15,145	6,776
		9	Earnings per share	
			17.87 cents	5.85 cents
			17.60 cents	N/A
SSAP 25.11 App 16.4(1)(h)	2019			

Note: The format outlined above aggregates expenses according to their function. Enterprises may also choose to provide an analysis by nature of expense.

<u>Source</u>	<u>Checklist</u>	<u>KOWLOON GAAP LIMITED</u>		
App 16.40(1) App 16.4(1)	2016	CONDENSED CONSOLIDATED BALANCE SHEET <u>AT 31 JULY 2000</u>		
		<u>NOTES</u>	<u>31/7/00</u> (unaudited) HK\$'000	<u>31/1/00</u> HK\$'000
		Non-current assets		
			94,500	79,354
		10	94,500	79,354
		10	165,528	126,046
			12,938	7,930
			7,329	5,564
			9,842	8,278
			66,291	59,830
			11,361	20,870
			367,789	307,872
		Current assets		
			54,083	37,856
			34,713	27,149
		11	150,874	117,960
			10,306	553
			41,703	10,983
			291,679	194,501
		Current liabilities		
			23,998	899
		12	77,373	19,373
			2,864	963
			5,560	-
			812	644
			112,827	91,871
			2,112	1,805
			225,546	115,555
		Net current assets		
			66,133	78,946
			433,922	386,818

<u>Source</u>	<u>Checklist</u>	<u>KOWLOON GAAP LIMITED</u>		
		CONDENSED CONSOLIDATED BALANCE SHEET		
		<u>AT 31 JULY 2000</u> - continued		
		NOTE	31/7/00 (unaudited) HK\$'000	31/1/00 HK\$'000
		Capital and reserves		
		13	57,920	57,920
			58,794	54,431
			60,031	44,886
			(11,295)	7,281
			-----	-----
			165,450	164,518
			-----	-----
			Minority interest	16,160
			61,775	-----
			-----	-----
		Non-current liabilities		
			202,122	202,396
			3,595	3,159
			980	585
			-----	-----
			206,697	206,140
			-----	-----
			433,922	386,818
			=====	=====

<u>Source</u>	<u>Checklist</u>	<u>KOWLOON GAAP LIMITED</u>		
App 16.40(1) App 16.4(1)	2016	CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS <u>ENDED 31 JULY 2000</u>		
			Six months ended	
			<u>31/7/00</u>	<u>31/7/99</u>
			(unaudited)	(unaudited)
			HK\$'000	HK\$'000
		Gain (loss) recognised on revaluation of non-trading securities	4,363	(8,953)
		Exchange differences arising on translation of overseas operations	(6,436)	2,128
			-----	-----
		Net losses not recognised in the income statement	(2,073)	(6,825)
		Net profit for the period	20,705	6,776
			-----	-----
		Total recognised gains and losses	18,632	(49)
		Elimination against reserves of goodwill arising on acquisition of subsidiary	(12,140)	-
			-----	-----
			6,492	(49)
			=====	=====
		Effect of change in accounting policy - write off of pre-operating expenses on implementation of INT 9		(2,810)
				=====

Source	Checklist	KOWLOON GAAP LIMITED												
App 16.40(1) App 16.4(1)	2016	CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued												
		<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Six months ended <u>31/7/00</u></th> <th style="text-align: center;"><u>31/7/99</u></th> </tr> <tr> <th></th> <th style="text-align: center;">(unaudited)</th> <th style="text-align: center;">(unaudited)</th> </tr> <tr> <th></th> <th style="text-align: center;">HK\$'000</th> <th style="text-align: center;">HK\$'000</th> </tr> </thead> </table>		Six months ended <u>31/7/00</u>	<u>31/7/99</u>		(unaudited)	(unaudited)		HK\$'000	HK\$'000			
	Six months ended <u>31/7/00</u>	<u>31/7/99</u>												
	(unaudited)	(unaudited)												
	HK\$'000	HK\$'000												
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING</td> <td style="width: 20%; text-align: right;">(51,234)</td> <td style="width: 20%; text-align: right;">(14,200)</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;"></td> </tr> </table>	NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING	(51,234)	(14,200)									
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		FINANCING ACTIVITIES												
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Repayments of borrowings</td> <td style="width: 20%; text-align: right;">(92,515)</td> <td style="width: 20%; text-align: right;">(12,436)</td> </tr> <tr> <td>New bank loans raised</td> <td style="text-align: right;">112,553</td> <td style="text-align: right;">26,490</td> </tr> <tr> <td>Advances from holding company and minority shareholder of subsidiary</td> <td style="text-align: right;">62,118</td> <td style="text-align: right;">-</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;"></td> </tr> </table>	Repayments of borrowings	(92,515)	(12,436)	New bank loans raised	112,553	26,490	Advances from holding company and minority shareholder of subsidiary	62,118	-			
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New bank loans raised	112,553	26,490												
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		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">NET CASH INFLOW FROM FINANCING ACTIVITIES</td> <td style="width: 20%; text-align: right;">82,156</td> <td style="width: 20%; text-align: right;">14,054</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;"></td> </tr> </table>	NET CASH INFLOW FROM FINANCING ACTIVITIES	82,156	14,054									
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		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">NET INCREASE IN CASH AND CASH EQUIVALENTS</td> <td style="width: 20%; text-align: right;">30,922</td> <td style="width: 20%; text-align: right;">28,254</td> </tr> </table>	NET INCREASE IN CASH AND CASH EQUIVALENTS	30,922	28,254									
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		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</td> <td style="width: 20%; text-align: right;">10,983</td> <td style="width: 20%; text-align: right;">845</td> </tr> </table>	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,983	845									
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,983	845												
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Effect of foreign exchange rate changes</td> <td style="width: 20%; text-align: right;">(202)</td> <td style="width: 20%; text-align: right;">665</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;"></td> </tr> </table>	Effect of foreign exchange rate changes	(202)	665									
Effect of foreign exchange rate changes	(202)	665												
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">CASH AND CASH EQUIVALENTS AT END OF PERIOD</td> <td style="width: 20%; text-align: right;">41,703</td> <td style="width: 20%; text-align: right;">29,764</td> </tr> <tr> <td></td> <td style="border-top: 3px double black;"></td> <td style="border-top: 3px double black;"></td> </tr> </table>	CASH AND CASH EQUIVALENTS AT END OF PERIOD	41,703	29,764									
CASH AND CASH EQUIVALENTS AT END OF PERIOD	41,703	29,764												

Source	Checklist	<u>KOWLOON GAAP LIMITED</u>
SSAP 25.16(a) App 16.38	2009	<p data-bbox="553 222 1399 296"><u>NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JULY 2000</u></p> <p data-bbox="553 359 1399 390">1. ACCOUNTING POLICIES</p> <p data-bbox="553 432 1399 533">The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.</p> <p data-bbox="553 569 1399 772">The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25) <i>Interim Reporting</i>. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 January 2000, except as described below.</p> <p data-bbox="553 808 1399 1115">SSAP 14 (Revised) <i>Leases</i>, which has been adopted for the first time in this interim reporting period, has introduced some amendments to the basis of accounting for finance and operating leases. In particular, it has required a change in the basis of measuring finance income from finance leases from the net cash investment method to the net investment method. This change has not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.</p> <p data-bbox="553 1150 1399 1730">In prior years, pre-operating expenses were capitalised and amortised, on a straight-line basis, over a period of not more than five years from the date of commencement of commercial operation. The adoption of Interpretation 9 <i>Accounting for Pre-operating Costs</i> (INT 9) has led to a reassessment of this accounting policy. In particular, pre-operating expenses are not considered to give rise to an identifiable resource from which economic benefits are expected to flow to the Group. Accordingly, such expenditure is now recognised as an expense in the period in which it is incurred. This change in accounting policy has been applied retrospectively resulting in a decrease in the Group's retained profits at 1 February 1999 of HK\$2.8 million and an increase in the Group's net profit for the six months ended 31 July 2000 of HK\$0.30 million (six months ended 31 July 1999: HK\$0.34 million; year ended 31 January 2000: HK\$0.78 million). Comparative information has been restated to reflect this change in accounting policy.</p>

SourceChecklistKOWLOON GAAP LIMITEDNOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued

In addition, the Group has chosen to adopt SSAP 26 *Segment Reporting* for the first time in this interim reporting period, in advance of its effective date. In previous years, segment disclosures have been presented in accordance with the requirements of the Listing Rules. For the purposes of this interim report, the adoption of SSAP 26 has result in a re-specification of some reportable segments. Segment disclosures for the six months ended 31 July 1999 have been amended so that they are presented on a consistent basis.

<u>Source</u>	<u>Checklist</u>	<u>KOWLOON GAAP LIMITED</u>			
		NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued			
App 16.4(1)(n) SSAP 25.16(g)	2017	2. SEGMENT INFORMATION			
		Business Segments			
		Revenue		Segment Result	
		Six months ended		Six months ended	
		<u>31/7/00</u>	<u>31/7/99</u>	<u>31/7/00</u>	<u>31/7/99</u>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Continuing operations:			
		Manufacture of sports shoes and equipment			
		311,905	204,650	22,808	10,460
		Trading of electronic goods			
		127,616	84,986	7,081	5,193
		Leasing			
		7,556	5,700	7,037	3,236
		-----	-----	-----	-----
		447,077	295,336	36,926	18,889
		Discontinued operations			
		Manufacturing of toys			
		66,747	57,265	1,698	1,758
		-----	-----	-----	-----
		513,824	352,601	38,624	20,647
		=====	=====	-----	-----
		Unallocated corporate expenses		(3,604)	(1,215)
				-----	-----
		Profit from operations		35,020	19,432
				=====	=====
		Geographical Segments			
		Revenue		Segment Result	
		Six months ended		Six months ended	
		<u>31/7/00</u>	<u>31/7/99</u>	<u>31/7/00</u>	<u>31/7/99</u>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		United States			
		344,933	236,039	25,481	13,584
		Hong Kong			
		93,463	64,492	6,931	3,742
		Europe			
		75,428	52,070	6,212	3,321
		-----	-----	-----	-----
		513,824	352,601	38,624	20,647
		=====	=====	-----	-----
		Unallocated corporate expenses		(3,604)	(1,215)
				-----	-----
		Profit from operations		35,020	19,432
				=====	=====
		Revenue from the Group's discontinued operations was derived principally from the United States.			

<u>Source</u>	<u>Checklist</u>	<u>KOWLOON GAAP LIMITED</u>																																							
		<p>NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued</p>																																							
		<p>3. RESULTS FOR THE PERIOD</p> <p>[Commentary on seasonal trends etc.]</p>																																							
App 16.40(1) App 16.4(1)	2016(b)	<p>4. COST OF SALES</p> <p>Included in cost of sales is an amount of HK\$27.9 million in respect of exceptional provisions made to reduce the carrying value of inventories to their net realisable value.</p>																																							
App 16.40(1) App 16.4(1)	2016(b)	<p>5. RESTRUCTURING COSTS</p> <p>During the period, the Group's instituted an external review of its manufacturing operations, which resulted in significant rationalisation. Costs incurred comprised HK\$2.4 million for consultants' fees, and HK\$6.7 million for redundancy costs paid.</p>																																							
App 16.40(1) App 16.4(1)	2016(k)	<p>6. DEPRECIATION/AMORTISATION</p> <p>During the period, depreciation of HK\$12.6 million (1999: HK\$10.8 million) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$1.7 million (1999: HK\$1.7 million) was charged in respect of the Group's intangible assets.</p>																																							
App 16.40(1) App 16.4(1)	2016(c)	<p>7. TAXATION</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th colspan="2" style="text-align: center;">Six months ended</th> </tr> <tr> <th></th> <th style="text-align: center;">31/7/00</th> <th style="text-align: center;">31/7/99</th> </tr> <tr> <th></th> <th style="text-align: center;">HK\$'000</th> <th style="text-align: center;">HK\$'000</th> </tr> </thead> <tbody> <tr> <td>Current tax:</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Hong Kong</td> <td style="text-align: right;">1,586</td> <td style="text-align: right;">1,241</td> </tr> <tr> <td style="padding-left: 20px;">Other jurisdictions</td> <td style="text-align: right;">613</td> <td style="text-align: right;">462</td> </tr> <tr> <td>Deferred tax</td> <td style="text-align: right;">436</td> <td style="text-align: right;">352</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">_____</td> <td style="text-align: right; border-top: 1px solid black;">_____</td> </tr> <tr> <td>Taxation attributable to the Company and its subsidiaries</td> <td style="text-align: right;">2,635</td> <td style="text-align: right;">2,055</td> </tr> <tr> <td>Share of taxation attributable to associate</td> <td style="text-align: right;">714</td> <td style="text-align: right;">250</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">_____</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">_____</td> </tr> <tr> <td></td> <td style="text-align: right;">3,349</td> <td style="text-align: right;">2,305</td> </tr> <tr> <td></td> <td style="text-align: right; border-bottom: 3px double black;">_____</td> <td style="text-align: right; border-bottom: 3px double black;">_____</td> </tr> </tbody> </table>		Six months ended			31/7/00	31/7/99		HK\$'000	HK\$'000	Current tax:			Hong Kong	1,586	1,241	Other jurisdictions	613	462	Deferred tax	436	352		_____	_____	Taxation attributable to the Company and its subsidiaries	2,635	2,055	Share of taxation attributable to associate	714	250		_____	_____		3,349	2,305		_____	_____
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App 16.40(1) App 16.4(1)	2016(f)	<p data-bbox="607 222 1333 291"><u>NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued</u></p> <p data-bbox="607 359 837 388">8. DIVIDENDS</p> <p data-bbox="675 422 1443 537">The directors have determined that an interim dividend of HK\$4.8 cents per share (1999: Nil) should be paid to the shareholders of the Company whose names appear in the Register of members on 16 October 2000.</p> <p data-bbox="607 569 997 598">9. EARNINGS PER SHARE</p> <p data-bbox="675 632 1443 688">The calculation of the basic and diluted earnings per share is based on the following data:</p> <table data-bbox="1162 688 1411 779"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Six months ended</th> </tr> <tr> <th></th> <th style="text-align: center;">31/7/00</th> <th style="text-align: center;">31/7/99</th> </tr> <tr> <th></th> <th style="text-align: center;">HK\$'000</th> <th style="text-align: center;">HK\$'000</th> </tr> </thead> <tbody> <tr> <td colspan="3">Earnings</td> </tr> <tr> <td>Earnings for the purposes of basic and diluted earnings per share (net profit for the period)</td> <td style="text-align: right;">20,705</td> <td style="text-align: right;">6,776</td> </tr> <tr> <td></td> <td style="text-align: right;"><u> </u></td> <td style="text-align: right;"><u> </u></td> </tr> <tr> <td>Number of shares</td> <td style="text-align: right;">'000</td> <td style="text-align: right;">'000</td> </tr> <tr> <td>Weighted average number of ordinary shares for the purpose of basic earnings per share</td> <td style="text-align: right;">115,840</td> <td style="text-align: right;">115,840</td> </tr> <tr> <td></td> <td style="text-align: right;"><u> </u></td> <td style="text-align: right;"><u> </u></td> </tr> <tr> <td>Effect of dilutive share options</td> <td style="text-align: right;">1,820</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u> </u></td> <td></td> </tr> <tr> <td>Weighted average number of ordinary shares for the purposes of diluted earnings per share</td> <td style="text-align: right;">117,660</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u> </u></td> <td></td> </tr> </tbody> </table> <p data-bbox="607 1465 1443 1522">10. ADDITIONS TO INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT</p> <p data-bbox="675 1556 1443 1644">During the period, the Group acquired two residential apartments in Midlevels, Hong Kong at a cost of HK\$15.1 million. These properties are held for investment purposes.</p> <p data-bbox="675 1675 1443 1854">In addition, the Group spent approximately HK\$25 million (six months ended 31 July 1999: HK\$39.2 million) on the final stage of construction of its new office premises and HK\$37.6 million (six months ended 31 July 1999: HK\$3.4 million) on additions to manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.</p>		Six months ended			31/7/00	31/7/99		HK\$'000	HK\$'000	Earnings			Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	20,705	6,776		<u> </u>	<u> </u>	Number of shares	'000	'000	Weighted average number of ordinary shares for the purpose of basic earnings per share	115,840	115,840		<u> </u>	<u> </u>	Effect of dilutive share options	1,820			<u> </u>		Weighted average number of ordinary shares for the purposes of diluted earnings per share	117,660			<u> </u>	
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SSAP 25.16(e)	2020(d)	<p>13. SHARE CAPITAL</p> <p>There were no movements in the share capital of the Company in either the current or the prior interim reporting period.</p>																		

Source	Checklist	KOWLOON GAAP LIMITED																														
SSAP 25.16(j)	2020(h)	<p data-bbox="607 222 1333 296"><u>NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued</u></p> <p data-bbox="607 365 1230 394">14. CONTINGENCIES AND COMMITMENTS</p> <table data-bbox="675 432 1409 1079"> <thead> <tr> <th></th> <th style="text-align: right;"><u>31/7/00</u></th> <th style="text-align: right;"><u>31/1/00</u></th> </tr> <tr> <th></th> <th style="text-align: right;">HK\$'000</th> <th style="text-align: right;">HK\$'000</th> </tr> </thead> <tbody> <tr> <td colspan="3" data-bbox="675 537 1110 600">Guarantees given to banks in respect of facilities utilised by:</td> </tr> <tr> <td data-bbox="708 604 987 634">Jointly controlled entity</td> <td style="text-align: right;">10,000</td> <td style="text-align: right;">3,000</td> </tr> <tr> <td data-bbox="708 638 829 667">Associates</td> <td style="text-align: right;">11,750</td> <td style="text-align: right;">2,500</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>21,750</u></td> <td style="text-align: right;"><u>5,500</u></td> </tr> <tr> <td colspan="3" data-bbox="675 810 1166 873">Commitments for the acquisition of property, plant and equipment:</td> </tr> <tr> <td data-bbox="708 877 1117 940">Contracted for but not provided in the financial statements</td> <td style="text-align: right;">3,200</td> <td style="text-align: right;">38,500</td> </tr> <tr> <td data-bbox="708 945 1097 974">Authorised but not contracted for</td> <td style="text-align: right;">1,800</td> <td style="text-align: right;">19,500</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>5,000</u></td> <td style="text-align: right;"><u>58,000</u></td> </tr> </tbody> </table>		<u>31/7/00</u>	<u>31/1/00</u>		HK\$'000	HK\$'000	Guarantees given to banks in respect of facilities utilised by:			Jointly controlled entity	10,000	3,000	Associates	11,750	2,500		<u>21,750</u>	<u>5,500</u>	Commitments for the acquisition of property, plant and equipment:			Contracted for but not provided in the financial statements	3,200	38,500	Authorised but not contracted for	1,800	19,500		<u>5,000</u>	<u>58,000</u>
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SSAP 25.16(h)	2020(f)	<p data-bbox="607 1150 1122 1180">15. POST BALANCE SHEET EVENTS</p> <p data-bbox="672 1222 1442 1453">Subsequent to the interim reporting date, the Group completed its negotiations with Hong Kong GAAP Limited for the acquisition of 75% of Subtwo Limited. The transaction was completed in September 2000 and the acquisition cost of HK\$20.3 million was satisfied in cash. Details of the acquisition are set out in the Group's circular dated 14 August 2000.</p>																														
SSAP 25.16(i)	2020(g)	<p data-bbox="607 1528 1349 1558">16. ACQUISITION AND DISPOSAL OF SUBSIDIARIES</p> <p data-bbox="675 1600 980 1629">Discontinued Operations</p> <p data-bbox="675 1671 1458 1734">On 31 May 2000, the Group disposed of Sub A Limited, which carried out all of its toy manufacturing operations.</p>																														

SourceChecklistKOWLOON GAAP LIMITEDNOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 JULY 2000 - continued

The results of the discontinued operation for the interim reporting period were as follows:

	4 months ended <u>31/5/00</u> HK\$'000	6 months ended <u>31/7/99</u> HK\$'000
Revenue	66,747	57,265
Operating costs	(65,049)	(55,507)
Finance costs	(2,890)	(2,103)
	<hr/>	<hr/>
Loss before tax	(1,192)	(345)
Income tax expense	-	(823)
	<hr/>	<hr/>
Loss from ordinary activities after tax	(1,192)	(1,168)
	<hr/>	<hr/>

A profit of HK\$4 million was earned on the disposal of Sub A Limited.

Acquisition

On 1 July 2000, the Group acquired 100% of the issued share capital of Sub X Limited for cash consideration of HK\$26 million. This transaction has been accounted for using the acquisition method of accounting.

The following summarises the effect of the acquisition:

	HK\$'000
Net assets acquired	13,844
Goodwill arising on acquisition	12,140
	<hr/>
- Cash consideration	25,984
	<hr/>
Net cash outflow arising on acquisition	
Cash consideration	(25,984)
Bank balances and cash acquired	6,493
	<hr/>
-	(19,491)
	<hr/>

Sub X Limited did not make any significant contribution to the results of the Group during the interim period.

APPENDIX II

INTERIM REPORTING – COMPLIANCE CHECKLIST

PAGES 105-152

CONTENTS

MAIN BOARD

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GROWTH ENTERPRISE MARKET

6.	Requirements for GEM listed enterprises	141
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SECTION 1 INTERIM REPORTS – REQUIREMENT TO PREPARE

Ref.	Requirement	Source
1001	In respect of the first 6 months of each financial year, unless that financial year is 6 months or less, listed enterprises are required to prepare an interim report.	App 7A/7B/7I.10(1)
1002	<p>Not later than 3 months after the end of the interim period, the interim report should be sent to:</p> <p>a) every member of the company; and</p> <p>b) every other holder of its listed securities (not being bearer securities).</p> <p><i>Note: The enterprise is required to send 500 copies of the interim report to the SEHK at the same time as it is sent to members with registered addresses in Hong Kong.</i></p>	<p>App 7A/7B/7I.10(1) App 7A/7B/7I.8(1)</p> <p>App 7A/7B/7I.10(3)</p>
1003	<p>The interim report should be reviewed by the enterprise’s audit committee or, where an audit committee has not been formed, by the enterprise’s external auditors.</p> <p><i>Note: It is the responsibility of the audit committee (or the auditors, as the case may be) to determine the scope and extent of the review. In reviewing an interim report, the audit committee (or the auditors, as the case may be) may refer for guidance to relevant statements of auditing standards and auditing guidelines in relation to the review of interim financial reports.</i></p>	App 16.39
1004	Where the enterprise’s audit committee (or the auditors, as the case may be) disagree with an accounting treatment which has been adopted, or with the enterprise’s statement as regards compliance with Accounting Standards and consistent use of accounting policies, full details of the disagreement should be disclosed in the interim report.	App 16.39

SECTION 2 GENERAL REQUIREMENTS

Ref.	Requirement	Source
2001	<p>Financial Information</p> <p><i>Financial Statements</i></p> <p>The interim report should include, at a minimum, the following components:</p> <ul style="list-style-type: none"> a) a balance sheet that includes, at a minimum, each of the major components of assets, liabilities and equity that were presented in the most recent published annual balance sheet; b) an income statement that includes, at a minimum, each component of income and expense that was presented in the most recent published annual income statement; c) a cash flow statement that includes, at a minimum, the major subtotals of cash flows that were presented in the most recent published annual cash flow statement; d) a statement of movements in equity other than those arising from capital transactions with shareholders and distributions to shareholders (a statement of recognised gains and losses); e) comparative figures for the statements referred to in (a) to (c) above for the corresponding previous period; and f) accounting policies and explanatory notes. 	App 16.37 SSAP 25.8,10
	<p><i>Notes:</i></p> <ul style="list-style-type: none"> 1. <i>In the case of the balance sheet, the comparative figures in the interim report are those items shown in the balance sheet as of the end of immediately preceding financial year.</i> 2. <i>Under the Listing Rules, comparative figures may be omitted from the cash flow statement for the first interim period ending on or after 1 July 2000. The requirement for disclosure of comparative figures for the cash flow statement will be mandatory in respect of interim periods ending on or after 1 July 2001. However, availing of this transitional relief represents a breach of SSAP 25 – see item 2004 below.</i> 	App 16 Note 37.2 App 16 Note 37.3

Ref.	Requirement	Source
	<p>3. <i>As per item 2001(e) above, the Listing Rules do not require comparatives to be presented for the statement of recognised gains and losses. However, availing of this exemption will result in a breach of SSAP 25 – see item 2004 below.</i></p>	
2002	Additional line items or notes should be included where their omission would make the condensed interim financial statements misleading.	SSAP 25.10
2003	<p>If a complete set of financial statements is published in the interim financial report, the form and content of those statements should conform to the requirements of SSAP 1 <i>Presentation of Financial Statements</i> for a complete set of financial statements.</p> <p><i>Periods for which interim financial statements are required to be presented</i></p>	SSAP 25.9
2004	<p>The interim report should include interim financial statements (condensed or complete) for the following periods:</p> <p>a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;</p> <p>b) income statements of the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;</p> <p>c) statement showing recognised gains and losses cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and</p>	SSAP 25.20

Ref.	Requirement	Source
	<p>d) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.</p> <p><i>Notes:</i></p> <p>1. <i>For an enterprise whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period may be useful. Accordingly, enterprises whose business is highly seasonal are encouraged to consider reporting such information in addition to the information specified in item 2004.</i></p> <p>2. <i>The exemptions provided for in the Listing Rules from the requirement to present comparatives for the cash flow statement (first year only) and the statement of recognised gains and losses (ongoing) are not repeated in SSAP 25. Therefore, availing of those exemptions will represent a breach of SSAP 25 which will result in a qualification of the statement of compliance with SSAP 25 (see item 2006 below).</i></p>	SSAP 25.21
2005	<p>The interim report should comply with the requirements of SSAP 25 <i>Interim Financial Reporting</i>.</p> <p><i>Note: For enterprises reporting under IAS, the equivalent reference is IAS 34, which is practically identical to SSAP 25.</i></p>	App 16.38
2006	<p>If the enterprise's interim financial report is in compliance with SSAP 25 (or IAS 34, as the case may be), that fact should be disclosed.</p> <p><i>Note: An interim financial report should not be described as complying with Statements of Standard Accounting Practice/International Accounting Standards unless it complies with all of the requirements of each applicable Standard and each applicable Interpretation.</i></p>	SSAP 25.19

Ref.	Requirement	Source
	<p><i>Basis of preparation</i></p>	
2007	<p>The enterprise should apply the same accounting policies in its interim financial statements as were applied in its most recent annual financial statements (or, in the case of a newly listed enterprise, in its prospectus), except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.</p> <p><i>Note: The Listing Rules restrict changes of accounting policy to those that are required by a new Accounting Standard. We consider that this is unnecessarily restrictive and that voluntary changes of accounting policy which result in a more appropriate presentation of events or transactions are also acceptable, provided that the conditions of SSAP 2 are met, that the changes are to be reflected in the next annual financial statements and that appropriate disclosures are made.</i></p>	SSAP 25.28 App 16.38
2008	<p>A change in accounting policy, other than one for which the transition is specified by a new Accounting Standard, should be reflected by restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of prior financial years in accordance with SSAP 2 <i>Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</i>.</p>	SSAP 25.43
2009	<p>The interim report should include a statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.</p>	SSAP 25.16(a) App 16.38
2010	<p>Where it is not possible to quantify the effects of a change in accounting policy, or the effects are not significant, this fact should be stated.</p>	App 16 Note 38.1
2011	<p>Measurements for interim reporting purposes should be made on a year-to-date basis, so that the frequency of the enterprise's reporting (annual, half-yearly or quarterly) does not affect the measurement of its annual results.</p>	SSAP 25.28

Ref.	Requirement	Source
2012	Revenues that are received seasonally, cyclically or occasionally within a financial year should not be anticipated or deferred as of the interim date, if anticipation or deferral would not be appropriate at the end of the financial year.	SSAP 25.37
2013	Costs that are incurred unevenly during a financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.	SSAP 25.39
2014	The measurement procedures followed in the interim report should be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the enterprise is appropriately disclosed.	SSAP 25.41
2015	In deciding how to recognise, measure, classify or disclose items for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data, taking into account the greater reliance on estimates inherent in interim measurements.	SSAP 25.23
	<p><i>Detailed financial information</i></p> <p><i>Notes:</i></p> <ol style="list-style-type: none"> 1. <i>For banking companies, the requirements of 2016 to 2018 are replaced by the particular disclosures specified by Appendix 15 to the Listing Rules (see Section 4 of this checklist)</i> 2. <i>Financial conglomerates are required to comply with 2016 to 2018, and to provide the supplementary information specified in Section 3 of this checklist.</i> 	
2016	<p>The following items are required to be disclosed for the income statement:</p> <p>a) turnover;</p>	<p>App 16.40(1)</p> <p>App 16.4(1)</p>

Ref.	Requirement	Source
	<p>b) profit (or loss) before taxation, including the share of the profit (or loss) of associates and jointly controlled entities, with separate disclosure of any items included therein which are exceptional because of size and incidence;</p> <p>c) taxation on profits (Hong Kong and overseas), in each case indicating the basis of computation, with separate disclosure of the taxation on share of profits of associates and jointly controlled entities;</p> <p>d) profit (or loss) attributable to minority interests;</p> <p>e) profit (or loss) attributable to shareholders;</p> <p>f) rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby (<u>or an appropriate negative statement</u>);</p> <p>g) transfers to and from reserves;</p> <p>h) investment and other income;</p> <p>i) cost of goods sold;</p> <p>j) interest on borrowings,</p> <p>k) depreciation / amortisation;</p> <p>l) profit (or loss) on sale of investments or properties;</p>	
	<p>Notes:</p>	
1.	<p><i>Comparative figures are required for the corresponding previous period for the matters specified in item 2016 above.</i></p>	<p><i>App 16.4(1)(o)</i></p>
2.	<p><i>Where the items of information specified in item 2016 are unsuited to an enterprise's activities, appropriate adjustments should be made. Where the requirements are unsuited to the enterprise's activities or circumstances, the SEHK may require suitable adaptations to be made.</i></p>	<p><i>App 16 Note 4.1</i></p>

Ref.	Requirement	Source
2017	<p>The enterprise should disclose turnover and profit, analysed by operating activity and geographical segment, with comparative figures for the corresponding previous period.</p> <p><i>Notes:</i></p> <ol style="list-style-type: none"> <li data-bbox="386 430 1144 577">1. <i>For the purposes of item 2017, the Listing Rules specify that operating activities are the principal revenue-producing activities of the enterprise, other than those activities that are investing or financing activities, unless the enterprise is principally engaged in the provision of financial services.</i> <li data-bbox="386 598 1144 766">2. <i>For the purposes of item 2017, the Listing Rules specify that a geographical segment is a distinguishable component that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.</i> <li data-bbox="386 787 1144 892">3. <i>SSAP 25 only requires disclosure of segment revenue and segment result for <u>either</u> business or geographical segments. However, the Listing Rules require disclosure of both.</i> <li data-bbox="386 913 1144 1081">4. <i>SSAP 26 Segment Reporting is effective for annual accounting periods commencing on or after 1 January 2001. An extended implementation period has been allowed in order to permit enterprise's to adapt their reporting systems in order to accumulate the necessary segment information. The interim report should make it clear whether or not SSAP 26 has been adopted.</i> 	<p>App 16.4(1)(n) SSAP 25.16(g)</p> <p>App 16 Note 4.2</p> <p>App 16 Note 4.2</p> <p>SSAP 25.16(g)</p>
2018	<p>The following items are required to be disclosed for the balance sheet:</p> <ol style="list-style-type: none"> <li data-bbox="386 1165 1144 1197">a) fixed assets; <li data-bbox="386 1228 1144 1512">b) current assets: <ol style="list-style-type: none"> <li data-bbox="451 1281 1144 1312">i) inventories; <li data-bbox="451 1344 1144 1396">ii) debtors, including credit policy and ageing analysis of accounts receivable; <li data-bbox="451 1428 1144 1459">iii) cash at bank and in hand; and <li data-bbox="451 1491 1144 1512">iv) other current assets; 	<p>App 16.40(1) App 16.4(2)</p>

Ref.	Requirement	Source
	<ul style="list-style-type: none"> c) current liabilities: <ul style="list-style-type: none"> 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 - borrowings and debts; g) capital and reserves; and h) minority interests. 	
2019	Basic and diluted earnings per share should be presented on the face of the income statement (complete or condensed) for the interim period.	SSAP 25.11 App 16.4 (1)(h) App 15.1(m)
2020	<p>The following information (reported on financial year-to-date basis) should be included in the notes to the interim financial statements:</p> <ul style="list-style-type: none"> a) explanatory comments about the seasonality or cyclical nature of interim operations; b) the nature and amount of items affecting assets, liabilities, equity and income, or cash flows, that are unusual because of their nature, size or incidence; c) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period; d) issuances, repurchases and repayments of debt and equity securities; e) dividends paid or proposed (aggregate or per share) separately for ordinary and other shares; f) material events subsequent to the end of the interim period that have not been reflected in the financial statements of the interim period; 	SSAP 25.16 MA. I (xiv)

Ref.	Requirement	Source
	<p>g) the effects of changes in the composition of the enterprise during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations; and</p> <p>h) changes in contingent liabilities or contingent assets since the last annual balance sheet date.</p> <p><i>Note: The Standard lists the following as examples of the kinds of disclosures required by item 2020 above. Individual Accounting Standards provide guidance regarding disclosures for many of these items:</i></p> <ul style="list-style-type: none"> • <i>the write-down of inventories to net realisable value and the reversal of any such write-down;</i> • <i>recognition of a loss from the impairment of property, plant and equipment, intangible assets, or other assets, and the reversal of any such impairment loss;</i> • <i>the reversal of any provisions for the costs of restructuring;</i> • <i>acquisitions and disposals of items of property, plant and equipment;</i> • <i>litigation settlements;</i> • <i>corrections of fundamental errors in previously reported financial data;</i> • <i>extraordinary items;</i> • <i>any debt default or any breach of a debt covenant that has not been corrected subsequently; and</i> • <i>related party transactions.</i> 	
2021	Disclosure should be made of any other events or transactions that are material to an understanding of the current interim period.	SSAP 25.16 App 16.40(4) MA.II (xii)
2022	<p>a) Where the accounting information given in an interim report has not been audited. that fact should be stated.</p> <p>b) If the accounting information contained in an interim report has been audited by the external auditor, the auditors' report thereon, including any qualifications, should be reproduced in full in the interim report.</p>	App 16.43

Ref.	Requirement	Source
2023	Management Discussion and Analysis	App 16.40(2) MA.I (xiii)
	<p>The interim report should include a discussion and analysis of the enterprise's performance in the interim period covering all of the matters set out in item 2024 below.</p> <p>Notes:</p> <p>1. <i>The discussion:</i></p> <ul style="list-style-type: none"> • <i>should include any significant information needed for investors to make an informed assessment of the trend of the enterprise's activities and profit (or loss);</i> • <i>should identify and explain any special factor which has influenced the activities of the enterprise and its profit (or loss) during the period; and</i> • <i>should provide a comparison with the corresponding period of the preceding period and should also, as far as possible, give an indication of the enterprise's prospects for the current period.</i> <p>2. <i>For interim reporting purposes, the discussion may focus only on the significant changes in the enterprise's performance since the most recent published annual report. Where the current information in relation to those matters set out in item 2024 has not changed materially from the information disclosed in the most recent published annual report, a statement to that effect may be made and no additional disclosure is required.</i></p>	
2024	<p>The discussion and analysis of the enterprise's performance during the interim period and the material factors underlying its results and financial position should emphasise trends and identify significant events or transactions during the interim period under review and should address all of the following points:</p> <p>a) the enterprise's liquidity and financial resources. This may include comments on the level of borrowings at the balance sheet date, the seasonality of borrowing requirements, and the maturity profile of borrowings and committed borrowing facilities. Reference may also be made to the funding requirements for capital expenditure commitments and authorisations;</p>	App 16.32

Ref.	Requirement	Source
	<p>b) the capital structure of the enterprise's in terms of maturity profile of debt and obligations, type of capital instruments used, currency and interest rate structure. The discussion may cover:</p> <ul style="list-style-type: none"> i) funding and treasury policies and objectives in terms of the manner in which treasury activities are controlled; ii) the currencies in which borrowings are made and in which cash and cash equivalents are held; iii) the extent to which borrowings are at fixed interest rates; iv) the use of financial instruments for hedging purposes; and v) the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments; <p>c) the state of the enterprise's order book (where applicable) and prospects for new business, including new products and services introduced or announced;</p> <p>d) significant investments held, their performance during the financial year and their future prospects;</p> <p>e) details of material acquisitions and disposals of subsidiaries and associates in the course of the financial year;</p> <p>f) comments on segmental information. This may cover changes in industry segments, developments within the segments and their effect on the results of those segments. It may also include changes in market conditions, new products and services introduced or announced and their impact on the enterprise's performance and changes in turnover and margins;</p> <p>g) where applicable, details of the number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes;</p> <p>h) details of charges on enterprise assets;</p> <p>i) details of future plans for material investments or capital assets and their expected sources of funding in the coming year;</p>	

Ref.	Requirement	Source
	<p><i>Note: It is the responsibility of the directors to determine what investment or capital asset is material in the context of the enterprise's business, operations and financial performance. The materiality of an investment or a capital asset varies from one enterprise to another according to its financial performance, assets and capitalisation, the nature of its operations and other factors. An event that is material in the context of a smaller enterprise's business and affairs is often not material to a large enterprise.</i></p> <p>k) gearing ratio;</p> <p><i>Note: The basis on which the gearing ratio is computed should be disclosed.</i></p> <p>l) exposure to fluctuations in exchange rates and any related hedges; and</p> <p>m) details of contingent liabilities, if any.</p>	<p>App 16 Note 32.1</p> <p>App 16 Note 32.2</p>
2025	<p>Other Information</p> <p><i>Purchase, sale or redemption of securities</i></p> <p>The interim report should contain particulars of any purchase, sale or redemption by the company, or any of its subsidiaries, of its listed securities during the interim period <u>or an appropriate negative statement</u>.</p> <p><i>Notes:</i></p> <p>1. <i>The statement required by item 2025 should include the aggregate price paid or received by the company for such purchases, sales or redemptions and should distinguish between those securities purchased or sold:</i></p> <p>a) <i>on the SEHK;</i></p> <p>b) <i>on another stock exchange;</i></p> <p>c) <i>by private arrangement; and</i></p> <p>d) <i>by way of a general offer.</i></p>	<p>App 16.41(1) App 16.10(4)</p> <p>App 16.10(4)</p>

Ref.	Requirement	Source
2026	<p>2. <i>The statement required by item 2025 should also distinguish between those listed securities which are purchased by the company (and, for Hong Kong companies, therefore cancelled) and those which are purchased by a subsidiary of the company;</i></p> <p><i>Directors' interests in shares</i></p> <p>A statement is required at the end of the interim period showing:</p> <p>a) the interests (class and number of such securities) of each director and chief executive of the company in the equity or debt securities of the company or any associated corporation; and</p> <p>b) the details of any right to subscribe for equity or debt securities of the company granted to any director or chief executive of the company or to the spouse or children under 18 years of age of any such director or chief executive, and of the exercise of any such right;</p> <p>as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise notified to the enterprise and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies <u>or, if no such interest or right has been granted or exercised, a statement of that fact.</u></p> <p><i>Notes:</i></p>	<p>App 16.10(4)</p> <p>App 16.41(2) App 16.13(1)</p>
	<p>1. <i>"Associated corporation" means a corporation:</i></p> <ul style="list-style-type: none"> • <i>which is a subsidiary or holding company of the listed company or a subsidiary of the listed company's holding company; or</i> • <i>which is disclosed in the listed company's financial statements in accordance with sections 129 (1) and (2) of the Companies Ordinance.</i> <p>2. Interests of a director or a "chief executive" extend to include interests held by:</p> <ul style="list-style-type: none"> • <i>his or her spouse;</i> • <i>children under the age of 18; and</i> 	<p>SDIO s.2(1)</p> <p>SDIO s.31</p>

Ref.	Requirement	Source
	<ul style="list-style-type: none"> • <i>their respective controlled companies (with control of management or one third of the voting rights, either directly or indirectly through another corporation in which they control one third of the voting rights).</i> <p><i>This will include a director's interest under a discretionary trust which holds interests in equity or debt securities of the company.</i></p>	
3.	<p><i>For these purposes, a shadow director is deemed a director. "Shadow director" means a person in accordance with whose directions or instructions the directors of a company are accustomed to act.</i></p>	<p><i>SDIO s.29(6) SDIO s.2(1)</i></p>
4.	<p><i>The SEHK requires that any statement showing such interests of directors and chief executives should set out the total number or amount of such securities in which each director and chief executive is interested, as recorded in the company's register of interests, and then separately distinguish such interests between four categories as follows:</i></p> <ul style="list-style-type: none"> • <i>personal interests - namely those beneficial interests in securities which are registered in the name of the director or chief executive or a nominee who holds the securities on his behalf and to his order (e.g. a street name), including interests in securities which he has contracted to purchase;</i> • <i>family interests - namely those interests in securities which a director or chief executive is deemed or taken to have under the SDIO with respect to securities in which his spouse or his children under the age of 18 years are interested;</i> • <i>corporate interests - namely those interests in securities which a director or chief executive is deemed or taken to have under the SDIO with respect to the interests of a corporation where he is either entitled to exercise (or is taken under the SDIO to be able to exercise) or control the exercise of one third or more of the voting power in general meetings of that corporation or where the corporation or its directors are accustomed to act in accordance with his directions or instructions; and</i> 	<p><i>PN 5(3)</i></p>

Ref.	Requirement	Source
	<ul style="list-style-type: none"> • <i>other interests - namely those interests in securities recorded in the register of interests which do not fall within one of the above categories. This would include, by way of example, those interests which a director or chief executive is deemed or taken to have under the SDIO with respect to options which entitle a director or chief executive to call for the delivery of securities or to acquire an interest in securities and any interests in securities which arise as a result of the director or chief executive being a beneficiary or trustee of a trust (and which are not included as personal interests).</i> <p>5. <i>In the case of 'corporate' and 'other' interests, a note setting out the nature of such interests should be provided to assist shareholders and investors in understanding how the interests arise.</i></p> <p>6. <i>Particulars should be given of the extent of any duplication which occurs, between the interests of directors, chief executives, shareholders, their associates and substantial shareholders.</i></p>	<p>PN 5(3)</p> <p>App 16 Note 13.2</p>
2027	<p>Where interests arising from the holding of securities as qualifying shares are not disclosed pursuant to the exception allowed in App 16.13(2), <u>a general statement should be made to indicate that the directors hold qualifying shares</u>.</p> <p><i>Note: Non-beneficial interests of directors need not be disclosed if they are holdings of qualification shares or if there is a legally enforceable declaration of trust in favour of the parent company of that subsidiary, and such interest is held solely for the purpose of ensuring that the relevant subsidiary has more than one member.</i></p> <p>Substantial shareholders</p>	<p>App 16.41(2) App 16 Note 13.1</p> <p>App 16.13(2)</p>
2028	<p>A statement is required, as at the end of the interim period, showing the interests as recorded in the register required to be kept under section 16(1) of the SDIO and the amount of such interests <u>or, if there is no such interest recorded in the register, a statement of the fact.</u></p>	<p>App 16.41(2) App 16.13(3)</p>

Ref.	Requirement	Source
	<p><i>Notes:</i></p> <p>1. <i>A person's notifiable interests in shares include those of:</i></p> <ul style="list-style-type: none"> • <i>his or her spouse, or any child of his/hers under 18;</i> • <i>their respective controlled companies (with control of management or one third of the voting rights of such companies either directly or through another corporation in which they control one third of the voting rights); and</i> • <i>parties to any agreement to acquire shares in the relevant share capital of the company, if (i) the agreement includes provisions imposing obligations or restrictions on the use, retention or disposal of their interest and (ii) any interest in the company's shares is in fact acquired by any of the parties pursuant to an agreement.</i> <p>2. "Notifiable interest" means an interest in shares in the relevant share capital of an aggregate nominal value not less than 10% of the nominal value of that relevant share capital.</p> <p>3. "Relevant share capital" means the company's share capital of a class carrying voting rights at general meetings of the company.</p> <p><i>Code of Best Practice</i></p>	<p><i>SDIO s.8(1)</i></p> <p><i>SDIO s.8(2)(3)</i></p> <p><i>SDIO s.9(1)</i></p> <p><i>SDIO s.4(2) & s.6(1)</i></p> <p><i>SDIO s.2(1)</i></p>
2029	The enterprise should include in its interim report a statement that none of the directors is aware of information that would reasonably indicate that the enterprise is not, or was not for any part of the accounting period covered by the interim report, in compliance with Appendix 14.	App 16.44
2030	If any of the directors is aware of such information, the enterprise should verify whether the information is correct and whether there has been any non-compliance with Appendix 14.	App 16.44
2031	If the enterprise finds that there has been non-compliance with Appendix 14, then the enterprise should briefly explain in its interim report that it has not complied with all or part of Appendix 14, as the case may be, and include a statement giving the reasons for its non-compliance.	App 16.44

Ref.	Requirement	Source
	<p>Matters dealt with under Practice Note 19 (PN 19)</p> <p>Notes:</p> <p>1. <i>PN 19 gives guidance on specific circumstances (see below) that may require timely public disclosure under the general disclosure obligation placed on enterprises under paragraph 2 of the Listing Rules (Rule 2). If any of the specified circumstances occur, the enterprise is required to make a public announcement immediately in accordance with Rule 2. In addition, if the circumstances specified in PN 19 continue to exist at the enterprise's interim period end, specific disclosures are required.</i></p> <p>2. <i>The specific circumstances addressed by PN 19 include:</i></p> <ul style="list-style-type: none"> • <i>advances to an entity amounting to more than 25% of the enterprise's net assets and any subsequent increase of such amount accounting for 10% or more of the enterprise's net assets;</i> • <i>financial assistance and guarantees to affiliated companies amounting to more than 25% of the enterprise's net assets;</i> • <i>pledging of shares by the controlling shareholder to secure debts of the enterprise or to secure guarantees or support other obligations of the enterprise; and</i> • <i>loan agreements which include conditions imposing specific performance obligations on a controlling shareholder where breaches of such obligations will cause a default in respect of loans that are significant to the operations of the enterprise.</i> <p>3. <i>The expression "affiliated company" refers to a company which, in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, is recorded using the equity method of accounting in an entity's financial statements. This includes associates and jointly controlled entities as defined in those Standards.</i></p> <p>4. <i>References to net assets are to the aggregate of capital and reserves (excluding minority interests and intangibles) shown in the enterprise's latest published audited consolidated financial statements.</i></p>	<p>PN 19(3.2.1)</p> <p>PN 19(3.3)</p> <p>PN 19(3.6)</p> <p>PN 19(3.7.1)</p> <p>PN 19(1.2)</p>

Ref.	Requirement	Source
2032	<p><i>Advances to an entity</i></p> <p>Where the enterprise has been required to make disclosure during the period in respect of advances to an entity, and the circumstances giving rise to the disclosure continue to exist at the interim period end, the following information (as at the period end) should be included in the interim report:</p> <ul style="list-style-type: none"> a) details of the balances; b) the nature of events or transactions giving rise to the amounts; c) the identity of the debtor group; and d) interest rate, repayment terms and collateral. <p><i>Note: A general disclosure obligation arises where the relevant advance to an entity exceeds 25% of the issuer's net assets. The expression 'relevant advance to an entity' refers to the aggregate of amounts due from and all guarantees given on behalf of:</i></p> <ul style="list-style-type: none"> • <i>an entity;</i> • <i>the entity's controlling shareholders;</i> • <i>the entity's subsidiaries; and</i> • <i>the entity's affiliated companies.</i> 	PN 19(3.8, 3.2.3)
2033	<p><i>Financial assistance and guarantees to affiliated companies of the issuer</i></p> <p>Where the enterprise has been required to make disclosure during the period in respect of financial assistance and guarantees to affiliated companies, and the circumstances giving rise to the disclosure continue to exist at the interim period end, the annual report should include a proforma combined balance sheet of affiliated companies as of the latest practicable date.</p> <p><i>Notes:</i></p> <ol style="list-style-type: none"> 1. <i>A general disclosure obligation arises where financial assistance given to affiliated companies of the enterprise, and guarantees given for facilities granted to affiliated companies, together in aggregate exceed 25% of the enterprise's net assets</i> 	PN 19(3.10)

Ref.	Requirement	Source
2034	<p data-bbox="383 258 1138 512">2. <i>The proforma combined balance sheet of affiliated companies should include significant balance sheet classifications and state the attributable interest of the enterprise in the affiliated companies. In cases where it is not practicable to prepare the proforma combined balance sheet of affiliated companies, the Exchange, on application from the enterprise, may consider accepting, as an alternative, a statement of the indebtedness, contingent liabilities and capital commitments as at the end of the period reported on by affiliated companies.</i></p> <p data-bbox="383 543 841 569"><i>Pledging of shares by the controlling shareholder</i></p> <p data-bbox="383 600 1138 741">Where the enterprise has been required to make disclosure during the period because the controlling shareholder has pledged its interest in shares of the enterprise to secure debts of the enterprise, and the circumstances continue to exist at the date of the interim report, the following disclosures should be made in the interim report:</p> <p data-bbox="383 772 1138 968">a) the number and class of shares pledged;</p> <p data-bbox="383 831 1138 884">b) the amount of debts, guarantees or other support for which the pledge is made; and</p> <p data-bbox="383 915 1138 968">c) any other details that are considered necessary for an understanding of the arrangements.</p> <p data-bbox="383 999 1138 1115"><i>Note: A general disclosure obligation arises where the controlling shareholder of the enterprise has pledged its interest in shares of the enterprise to secure debts of the enterprise or to secure guarantees or support other obligations of the enterprise.</i></p> <p data-bbox="383 1146 1138 1199"><i>Loan agreements imposing specific performance on controlling shareholder</i></p>	PN 19(3.9, 3.6)
2035	<p data-bbox="383 1230 1138 1398">Where the enterprise has been required to make disclosure during the period in respect of loan agreements with covenants relating to specific performance of the controlling shareholder, and breaches of such obligations will cause a default in respect of loans that are significant to the enterprise, and the circumstances continue to exist at the date of the interim report, the following disclosures should be made in the interim report:</p>	PN 19(3.9, 3.7.1)

Ref.	Requirement	Source
2036	<p>a) the aggregate level of the facilities that may be affected by such a breach;</p> <p>b) the life of the facility; and</p> <p>c) the specific obligation imposed on any controlling shareholder.</p> <p><i>Note: A general disclosure obligation arises where the enterprise (or any of its subsidiaries) has entered into a loan agreement that includes a condition imposing specific performance obligations on any controlling shareholder (e.g. a requirement to maintain a specified minimum holding in the share capital of the issuer), and breach of such obligation will cause a default in respect of loans that are significant to the operations of the enterprise.</i></p> <p><i>Breaches of loan agreements – general</i></p> <p>If disclosure has been required during the period of a breach of terms of a loan agreement by the enterprise, and the circumstances continue to exist at the date of the interim report, disclosure of the circumstances is also required in the interim report.</p> <p><i>Note: A general disclosure obligation arises where there is a breach of the terms of loan agreements by the enterprise for loans which are significant to the operations of the enterprise, such that the lenders may demand immediate repayment of the loans and where the lenders have not issued a waiver in respect of the breach.</i></p>	PN 19(3.9, 3.7.2)

SECTION 3 ADDITIONAL FINANCIAL INFORMATION - FINANCIAL CONGLOMERATES

Ref.	Requirement	Source
	<p><i>Notes:</i></p> <p>1. <i>Items 3001 to 3004 relate only to financial conglomerates. A financial conglomerate is defined as an enterprise that:</i></p> <ul style="list-style-type: none"> • <i>as at the end of the period, the net assets of its financial business represent more than 15% of the enterprise's consolidated net assets or, during the period under review, the net profit attributable to the shareholders of the financial business represents more than 15% of the net profit attributable to shareholders of the enterprise; and</i> • <i>as at the end of the period, its financial business has total assets of over HK\$1 billion or has customer deposits plus financial instruments held by the public of over HK\$300 million.</i> <p><i>For the purpose of this paragraph, financial business includes, but is not limited to, the business of securities trading; giving advice in connection with securities; commodities trading; leveraged foreign exchange trading; insurance activities; and money lending.</i></p> <p>2. <i>The information required by items 3001 to 3003, to be presented either on the face of the primary statements or in the notes, is considered to be part of the financial statements and therefore, where applicable, will be subject to review/audit by the audit committee/external auditors. The information required by item 3004 will be presented outside the financial statements, generally as part of the MDA.</i></p>	<p>App 16.36</p> <p>App 16.35</p>
3001	<p>The following items should be disclosed in the income statement of a financial conglomerate:</p> <ol style="list-style-type: none"> a) interest income; b) interest expense; c) gains less losses arising from dealing in foreign currencies; d) gains less losses on trading securities or other investments in securities; e) gains less losses from other dealing activities; f) gains less losses arising from derivative products; 	<p>App 16.40(3) App 16.35(1)</p>

Ref.	Requirement	Source
3002	g) charge for bad and doubtful debts;	App 16.40(3) App 16.35(2)
	h) gains less losses from disposal of investment securities or non-trading securities;	
	i) provisions on held-to-maturity securities and investment securities or provisions on held-to-maturity securities and non-trading securities; and	
	j) operating profit by products and divisions.	
	The following items should be disclosed in the balance sheet of a financial conglomerate:	
	a) cash and short-term funds (with an analysis between cash and balances with banks and other financial institutions, money at call and short notice and treasury bills where applicable);	
	b) trading securities or other investments in securities; <i>Note: Investments in securities should be distinguished between equity and debt securities and analysed between those which are listed and those which are unlisted. The analysis should be provided separately for held-to-maturity securities, investment securities, other investments in securities, trading securities and non-trading securities, where applicable. The market value of the listed securities as at the balance sheet date should also be disclosed.</i>	
	c) advances and other accounts (with an analysis between advances to customers, advances to banks and other financial institutions, accrued interest and other accounts, provisions for bad and doubtful debts and the related collateral security);	
	d) held-to-maturity securities and investment securities or held-to-maturity securities and non-trading securities; <i>Note: An analysis should be provided of held-to-maturity securities, investment securities, other investments in securities, trading securities and non-trading securities separately into those issued by central governments and central banks, public sector entities, banks and other financial institutions; corporate entities; and others. The market value of listed securities as at the balance sheet date should also be disclosed.</i>	

Ref.	Requirement	Source
	<p>e) issued debt securities;</p> <p>f) other accounts and provisions such as obligations on leases, sale and repurchase agreements, and forward contracts (with an analysis where material); and</p> <p>g) a maturity profile of the following assets and liabilities, unless immaterial:</p> <p>i) Assets</p> <ul style="list-style-type: none"> • advances to customers; • placements with banks and other financial institutions; • certificates of deposit held; and • debt securities (with an analysis into those included in held-to-maturity securities, trading securities or other investments in securities and investment securities or non-trading securities); and <p>ii) Liabilities</p> <ul style="list-style-type: none"> • deposits and balances of banks and other financial institutions; • current, fixed, savings and other deposits of customers; • certificates of deposit issued; and • issued debt securities. 	
3003	<p>The following should be disclosed in respect of the off-balance sheet exposures of a financial conglomerate:</p> <p>a) contingent liabilities and commitments;</p> <p>b) derivatives (with an analysis into those related to exchange rate contracts and interest rate contracts. The aggregate notional amounts of each significant class of derivative instruments should also be analysed into those entered into for trading or hedging purposes);</p>	<p>App 16.40(3) App 16.35(3)</p>

Ref.	Requirement	Source
3004	<p>c) where applicable, the aggregate credit risk weighted amounts of its contingent liabilities and commitments, exchange rate contracts, interest rate contracts and other derivatives, if any; and</p> <p>d) the aggregate replacement costs of its exchange rate contracts, interest rate contracts, and other derivative contracts, if any.</p> <p>The following supplementary information is required in respect of financial conglomerates:</p> <p>a) Management of risks</p> <p>A description of the main types of risk arising out of its business, including, where appropriate, credit, interest rate, foreign exchange and market risks arising out of its trading book. It should also include a description of the policies, procedures (including hedging policies) and controls used for measuring, monitoring and controlling those risks and for managing the capital required to support them.</p> <p>b) Segmental information</p> <p>Where a geographical segment of the financial business represents 10% or more of the enterprise's business, then that segment should be further analysed by industry sector.</p> <p><i>Note: If, in the opinion of the directors of the financial conglomerate, the market risk arising from the trading book is not considered as material, a statement to this effect be made and the information required by item 3004(a) may be omitted.</i></p>	<p>App 16.40(3) App 16.35(4)</p> <p>App 16.40(3)</p>

SECTION 4 ADDITIONAL FINANCIAL INFORMATION - BANKING COMPANIES

Ref.	Requirement	Source
4001	<p><i>Notes:</i></p> <p>1. <i>For banking companies, the information required by 4001 to 4003 replaces the income statement and balance sheet information required for other enterprises (see items 2016 to 2018 above)</i></p> <p>2. <i>In addition, the Hong Kong Monetary Authority (HKMA) has issued Recommendations on Interim Financial Disclosure by Authorised Institutions incorporated in Hong Kong, the most recent version being issued in January 2000. The HKMA recommendations deal principally with the analysis of financial assets and liabilities of the banking company.</i></p> <p>The following items are required to be disclosed in the income statement of a banking company:</p> <p>a) interest income;</p> <p>b) interest expense;</p> <p>c) other operating income;</p> <p>d) operating expenses;</p> <p>e) charge for bad and doubtful debts;</p> <p>f) gains less losses on trading securities or other investments in securities;</p> <p>g) gains less losses from disposal of investment securities or non-trading securities;</p> <p>h) provisions on held-to-maturity securities and investment securities or provisions on held-to-maturity securities and non-trading securities;</p> <p>i) exceptional items;</p> <p>j) taxation on profits (Hong Kong, overseas and deferred tax), in each case indicating the basis of computation, with separate disclosure of the taxation on share of profits of associates and jointly controlled entities;</p> <p>k) extraordinary items;</p> <p>l) as appropriations:</p> <p>i) transfers to or from inner reserves; and</p> <p>ii) transfers to or from other reserves; and</p>	App 15.1(I) MA.I

Ref.	Requirement	Source
4002	<p>m) rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby (or an appropriate negative statement).</p> <p><i>Note: Comparative figures for the corresponding previous period are required for the matters specified in item 4001 above.</i></p> <p>The following items are required to be shown for the statement of assets and liabilities:</p> <p>a) cash and short-term funds;</p> <p>b) trading securities or other investments in securities;</p> <p>c) advances and other accounts;</p> <p>d) held-to-maturity securities and investment securities or held-to-maturity securities and non-trading securities;</p> <p>e) issued debt securities; and</p> <p>f) other accounts and provisions.</p> <p><i>Note: Comparative figures for the corresponding previous period are required for the matters referred to in item 4002 above.</i></p>	App 15.1(II)
4003	<p>The following should be disclosed in respect of off-balance sheet exposures:</p> <p>a) contingent liabilities and commitments; and</p> <p>b) derivatives</p>	App 15.1(III)
4004	<p>The following analysis should be provided in respect of advances and other accounts:</p> <ul style="list-style-type: none"> • advances to customers; • advances to banks and other financial institutions; • accrued interest and other accounts (analysed where material); and • provisions for bad and doubtful debts (analysed between those against advances to customers, advances to banks and other financial institutions, accrued interest and other accounts if material), both: <ul style="list-style-type: none"> - general; and - specific. 	MA.II(i)

Ref.	Requirement	Source
4005	<p>A breakdown should be provided of the gross amount of advances to customers by industry sectors which are considered to be significant to the institution.</p> <p><i>Note: In order to achieve consistency of reporting among authorised institutions, the information specified by item 4005 should be disclosed in accordance with the industry categories set out below. The types of advances that should be included in the respective categories should follow those contained in the return on "Quarterly Analysis of Loans and Advances and Provisions (MA(BS)2A)". Institutions may also break items down into more detailed sub-categories if they so wish. Institutions may also find that disclosing information about the extent to which the advances are backed by collateral or other security indicates better the extent of credit risk. Disclosure of any such additional information is encouraged.</i></p> <p>a) <i>Loans for use in Hong Kong</i></p> <p>i) <i>Industrial, commercial and financial:</i></p> <ul style="list-style-type: none"> – <i>property development;</i> – <i>property investment;</i> – <i>financial concerns;</i> – <i>stockbrokers;</i> – <i>wholesale and retail trade;</i> – <i>manufacturing;</i> – <i>transport and transport equipment; and</i> – <i>others.</i> <p>ii) <i>Individuals:</i></p> <ul style="list-style-type: none"> – <i>loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme</i> – <i>loans for the purchase of other residential properties</i> – <i>credit card advances</i> – <i>others</i> <p>iii) <i>Trade Finance</i></p> <p>b) <i>Loans for use outside Hong Kong</i></p>	MA.II(ii)

Ref.	Requirement	Source
4006	<p>The enterprise should disclose:</p> <ul style="list-style-type: none"> a) advances to customers on which interest is being placed in suspense or on which interest accrual has ceased; b) the amount of such suspended interest; c) the amount of specific provisions made against such advances; and d) the percentage of such advances to total advances to customers. 	MA.II (iii)
4007	<p>The enterprise should disclose information similar to that specified by item 4006 above in respect of advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased.</p>	MA.II (iii)
4008	<p>The enterprise should disclose the gross amount of advances to customers which have been overdue ("overdue advances") for:</p> <ul style="list-style-type: none"> • six months or less but over three months; • one year or less but over six months; and • over one year. 	MA.II (iv)
4009	<p>In respect of the information required by item 4008, both the absolute amount of overdue advances and the percentage of such advances to total advances to customers should be given for each maturity bracket. Similar information on overdue advances to banks and other financial institutions should also be disclosed.</p>	MA.II (iv)
4010	<p>The amount of gross advances referred to at item 4008 above should be shown net of any interest that has been capitalised but accrued to a suspense account.</p> <p><i>Note: Institutions may also wish to disclose the value of collateral held against the overdue loans and the amount of specific provisions made. Where an institution opts to disclose the value of collateral held, it should disclose the split of overdue advances into those which are secured and those which are unsecured and the market value of collateral held against the secured loans based on the most recent estimate.</i></p>	MA.II (iv)

Ref.	Requirement	Source
4011	<p>The enterprise should disclose the amount of advances to customers and advances to banks and other financial institutions which:</p> <ul style="list-style-type: none"> • are overdue for more than three months and on which interest is still being accrued; and • are overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased. 	MA.II (v)
4012	<p>The enterprise should disclose the amount of rescheduled advances to customers, net of those which have been overdue for over three months and reported in item 4009 above, and the percentage of such advances to total advances to customers. Similar information on rescheduled advances to banks and other financial institutions should also be disclosed.</p>	MA.II (vi)
4013	<p>The enterprise should disclose the contractual or notional amounts of each of the following classes of off-balance sheet exposures:</p> <p>a) contingent liabilities and commitments:</p> <ul style="list-style-type: none"> • direct credit substitutes; • transaction-related contingencies; • trade-related contingencies; • note issuance and revolving underwriting facilities; • other commitments; and • others (including forward asset purchases, amounts owing on partly paid shares and securities, forward deposits placed, asset sales or other transactions with recourse) - analysed where material; and <p>b) derivatives:</p> <ul style="list-style-type: none"> • exchange rate contracts (excluding forward foreign exchange contracts arising from swap deposits arrangements); • interest rate contracts; and • others. 	MA.II (vii)

Ref.	Requirement	Source
4014	The enterprise should present its capital adequacy ratio at the end of the financial period, computed in accordance with the Third Schedule of the Ordinance. Where an institution is required to compute a consolidated ratio by the HKMA, that ratio should be disclosed. Otherwise, the solo ratio should be disclosed.	MA.II (viii)
4015	Institutions which are required by the HKMA to maintain capital against market risk should present an adjusted capital adequacy ratio which takes into account market risk as at the end of the financial period, computed in accordance with the guidance "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA.	MA.II (ix)
4016	<p>The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return (MA(BS)3) should be disclosed. These should include, but are not limited to, the following items:</p> <p>a) core capital:</p> <ul style="list-style-type: none"> • paid up ordinary share capital; • reserves (eligible for inclusion in core capital); • minority interests; • others; and • deduct: Goodwill; <p>b) eligible supplementary capital:</p> <ul style="list-style-type: none"> • reserves on revaluation of land and interests in land (at 70%); • general provisions for doubtful debts; • irredeemable cumulative preference shares; • term subordinated debt; • term preference shares; and • others; and <p>c) total capital base before deductions;</p> <p>d) deduction from total capital base; and</p> <p>e) total capital base after deductions.</p>	MA.II (x)

Ref.	Requirement	Source
4017	<p>Statement of compliance</p> <p>A statement is required regarding extent of compliance with the HKMA recommendations and the reason for any non-compliance. In cases of full compliance, a general statement that the recommendations have been fully complied with should be made. In cases of partial compliance, the statement should specify the areas of, and reasons for non-compliance.</p>	MA
4018	<p>Comparative figures</p> <p>In general, corresponding amounts for the immediately preceding financial period (i.e. the preceding year end figures) should be given for the disclosures specified by the HKMA recommendations.</p>	MA.II (xi)
4019	<p>Where the disclosures are applied for the first time, and it is impractical to apply the disclosures retrospectively, the disclosures in respect of comparatives need not apply for the first financial period.</p>	MA

SECTION 5 PRELIMINARY ANNOUNCEMENTS OF INTERIM RESULTS

Ref.	Requirement	Source
5001	The next business day after the date of board approval of the interim report (and in any event, not later than 3 months after the end of the interim period), the enterprise is required to publish in the newspapers a preliminary announcement in respect of its results for the interim period.	App 7A/7B/7I.11(6)
5002	<p>In circumstances where the enterprise is unable to make such a preliminary announcement of results, the enterprise is required to make an announcement within 3 months after the end of the interim period containing:</p> <p>a) a full explanation for its inability to make an announcement based on unaudited financial statements, and</p> <p>b) the expected date of announcement of the unaudited results for the first half of the financial year.</p> <p><i>Note: The enterprise is required to supply the SEHK immediately on publication with the names of the relevant newspapers and the date of publication.</i></p> <p>Information to accompany preliminary announcement of interim results</p>	App 7A/7B/7I.11(6)
5003	<p>The preliminary announcement should contain:</p> <p>a) the disclosures specified for the balance sheet and the income statement required by item 2016 to 2018 above (or, for banking companies, the disclosures required by items 4001 to 4003 above);</p> <p>b) the discussion and analysis of the group’s performance in the interim period as required by items 2023 and 2024 above;</p> <p>c) any supplementary information that is necessary for a reasonable appreciation of the results for the interim period as disclosed under 2021 above;</p> <p>d) particulars of any purchase, sale or redemption by the listed issuer or any of its subsidiaries, of its listed securities during the interim period as required by items 2025 above;</p> <p>e) a statement as to whether or not the interim figures have been audited as required by item 2022 above; and</p> <p>f) particulars of compliance with Appendix 14 to the Listing Rules as set out at items 2029 to 2031 above.</p>	App 16.46

SECTION 6 REQUIREMENTS FOR GEM LISTED ENTERPRISES

Ref.	Requirement	Source
	<p><i>Note: This section assumes that the GEM listed enterprise has not voluntarily opted to comply with SSAP 25. If it has chosen to do so, then all of the requirements of Sections 1 to 5 of this checklist derived from SSAP 25 will also be applicable.</i></p>	
	<p>Requirement to Prepare</p>	
6001	In respect of the first 3/6/9 month period of each financial year, GEM listed enterprises are required to prepare an interim report.	GR 18.53
6002	Not later than 45 days after the end of the interim period, the interim report should be published in printed form and submitted for publication on the GEM website.	GR 18.53 GR 16.04(2)
6003	<p>As soon as is reasonably practicable after publishing the interim report, the enterprise is required to send a copy to:</p> <p>a) every member of the company; and</p> <p>b) every other holder of its listed securities</p>	GR 18.54 GR 18.03
	<p><i>Note: The enterprise is required to send 100 copies of the interim report to the SEHK at the same time as it is sent to the holders of its listed securities with registered addresses in Hong Kong.</i></p>	GR 18.54
	<p>Disclosure Requirements</p>	
	<p>Financial Information</p>	
6004	<p>The following information should be disclosed in the interim reports of all enterprises other than banking companies:</p> <p>a) turnover;</p> <p>b) profit (or loss) before taxation and extraordinary items, including the share of profit (or loss) of affiliated companies, with separate disclosure of any items included therein which are exceptional because of size and incidence;</p>	GR 18.55 GR 18.50

Ref.	Requirement	Source
	<p>c) 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;</p> <p>d) profit (or loss) attributable to shareholders before extraordinary items;</p> <p>e) extraordinary items (net of taxation);</p> <p>f) profit (or loss) attributable to shareholders;</p> <p>g) rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby (<u>or an appropriate negative statement</u>);</p> <p>h) all movements to and from any reserves; and</p> <p>i) earnings per share.</p> <p><i>Notes:</i></p> <p>1. <i>Where the items of information specified by item 6004 are unsuited to the enterprise's activities, appropriate adjustments should be made. Where the requirements are unsuited to the enterprise's activities or circumstances, the SEHK may require suitable adaptations to be made.</i></p> <p>2. <i>The Exchange may authorise the omission of any information from the interim report if it considers:</i></p> <ul style="list-style-type: none"> • <i>such omission to be necessary or appropriate; or</i> • <i>that disclosure of such information would be contrary to the public interest or seriously detrimental to the issuer.</i> <p><i>provided that such omission would not be likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the securities in question.</i></p>	

Ref.	Requirement	Source
6005	<p>The following information should be disclosed in the interim reports of banking companies:</p> <ul style="list-style-type: none"> a) interest income; b) interest expense; c) other operating income; d) operating expenses; e) charge for bad and doubtful debts; f) gains less losses from disposal of tangible fixed assets and long-term investments; g) exceptional items; 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 profits of affiliated companies' profits; i) extraordinary items (net of taxation); j) as appropriations: <ul style="list-style-type: none"> i) transfers to or from inner reserves; and ii) all movements to or from other reserves; k) rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby (or an appropriate negative statement); and l) earnings per share. 	GR 18.55 GR 18.66
6006	<p>Comparative figures for the corresponding previous period should be disclosed for the matters specified in items 6004 and 6005 above.</p> <p><i>Directors' interests in shares</i></p>	GR 18.55 GR 18.50
6007	<p>A statement is required at the end of the interim period showing:</p> <ul style="list-style-type: none"> a) the interests (class and number of such securities) of each director and chief executive of the company in the equity or debt securities of the company or any associated corporation; and b) the details of any right to subscribe for equity or debt securities of the company granted to any director or chief executive of the company or to the spouse or children under 18 years of age of any such director or chief executive, and of the exercise of any such right; 	GR 18.55 GR 18.56

Ref.	Requirement	Source
	<p>as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise notified to the enterprise and the SEHK pursuant to the minimum standards of dealing by directors of listed enterprises <u>or, if no such interest or right has been granted or exercised, a statement of that fact.</u></p> <p>Notes:</p> <p>1. "Associated corporation" means a corporation:</p> <ul style="list-style-type: none"> • which is a subsidiary or holding company of the listed company or a subsidiary of the listed company's holding company; or • which is disclosed in the listed company's financial statements in accordance with sections 129 (1) and (2) of the Companies Ordinance. <p>2. Interests of a director or a "chief executive" extend to include interests held by:</p> <ul style="list-style-type: none"> • his or her spouse; • children under the age of 18; and • their respective controlled companies (with control of management or one third of the voting rights, either directly or indirectly through another corporation in which they control one third of the voting rights). <p><i>This will include a director's interest under a discretionary trust which holds interests in equity or debt securities of the company.</i></p> <p>3. For these purposes, a shadow director is deemed a director. "Shadow director" means a person in accordance with whose directions or instructions the directors of a company are accustomed to act.</p> <p>4. The HKSE requires that any statement showing such interests of directors and chief executives should set out the total number or amount of such securities in which each director and chief executive is interested, as recorded in the company's register of interests, and then separately distinguish such interests between four categories as follows:</p>	<p>SDIO s.2(1)</p> <p>SDIO s.31</p> <p>SDIO s.29(6) SDIO s.2(1)</p> <p>GR 18.57</p>

Ref.	Requirement	Source
	<ul style="list-style-type: none"> • <i>personal interests - namely those beneficial interests in securities which are registered in the name of the director or chief executive or a nominee who holds the securities on his behalf and to his order (e.g. a street name), including interests in securities which he has contracted to purchase;</i> • <i>family interests - namely those interests in securities which a director or chief executive is deemed or taken to have under the SDIO with respect to securities in which his spouse or his children under the age of 18 years are interested;</i> • <i>corporate interests - namely those interests in securities which a director or chief executive is deemed or taken to have under the SDIO with respect to the interests of a corporation where he is either entitled to exercise (or is taken under the SDIO to be able to exercise) or control the exercise of one third or more of the voting power in general meetings of that corporation or where the corporation or its directors are accustomed to act in accordance with his directions or instructions; and</i> • <i>other interests - namely those interests in securities recorded in the register of interests which do not fall within one of the above categories. This would include, by way of example, those interests which a director or chief executive is deemed or taken to have under the SDIO with respect to options which entitle a director or chief executive to call for the delivery of securities or to acquire an interest in securities and any interests in securities which arise as a result of the director or chief executive being a beneficiary or trustee of a trust (and which are not included as personal interests).</i> 	
5.	<i>In the case of 'corporate' and 'other' interests, a note setting out the nature of such interests should be provided to assist shareholders and investors in understanding how the interests arise.</i>	GR 18.57
6.	<i>Particulars should be given of the extent of any duplication which occurs, between the interests of directors, chief executives, shareholders, their associates and substantial shareholders.</i>	

Ref.	Requirement	Source
6008	<p>Where interests arising from the holding of securities as qualifying shares are not disclosed pursuant to the exception allowed in GR 18.57(2), a general statement should be made to indicate that the directors hold qualifying shares.</p> <p><i>Note: Non-beneficial interests of directors need not be disclosed if they are holdings of qualification shares or if there is a legally enforceable declaration of trust in favour of the parent company of that subsidiary, and such interest is held solely for the purpose of ensuring that the relevant subsidiary has more than one member.</i></p> <p>Substantial shareholders</p>	<p>GR 18.55 GR 18.57</p> <p>GR 18.57(2)</p>
6009	<p>A statement is required, as at the end of the interim period, showing the interests as recorded in the register required to be kept under section 16(1) of the SDIO and the amount of such interests <u>or, if there is no such interest recorded in the register, a statement of that fact.</u></p> <p><i>Notes:</i></p> <p>1. A person's notifiable interests in shares include those of:</p> <ul style="list-style-type: none"> • his or her spouse, or any child of his/hers under 18; • their respective controlled companies (with control of management or one third of the voting rights of such companies either directly or through another corporation in which they control one third of the voting rights); and • parties to any agreement to acquire shares in the relevant share capital of the company, if (i) the agreement includes provisions imposing obligations or restrictions on the use, retention or disposal of their interest and (ii) any interest in the company's shares is in fact acquired by any of the parties pursuant to an agreement. <p>2. "Notifiable interest" means an interest in shares in the relevant share capital of an aggregate nominal value not less than 10% of the nominal value of that relevant share capital.</p> <p>3. "Relevant share capital" means the company's share capital of a class carrying voting rights at general meetings of the company.</p>	<p>GR 18.55 GR 18.58</p> <p>SDIO s.8(1)</p> <p>SDIO s.8(2)(3)</p> <p>SDIO s.9(1)</p> <p>SDIO s.4(2) & s.6(1)</p> <p>SDIO s.2(1)</p>

Ref.	Requirement	Source
	<p><i>Exposure to borrowers and other specific circumstances that may require disclosure</i></p> <p>Notes:</p> <ol style="list-style-type: none"> 1. <i>Paragraphs 17.14 to 17.24 of the GEM Rules give guidance on specific circumstances (see below) that may require timely public disclosure under the general disclosure obligation placed on enterprises under paragraph 17.10 of the GEM Rules. If any of the specified circumstances occur, the enterprise is required to make an immediate public announcement. In addition, if the circumstances specified in paragraphs 17.14 to 17.24 continue to exist at the enterprise's interim period end, specific disclosures are required.</i> 2. <i>The specific circumstances addressed by paragraphs 17.14 to 17.24 of the GEM Rules include:</i> <ul style="list-style-type: none"> • <i>advances to an entity amounting to more than 25% of the enterprise's net tangible assets and any subsequent increase of such amount accounting for 10% or more of the enterprise's net tangible assets;</i> • <i>financial assistance and guarantees to affiliated companies amounting to more than 25% of the enterprise's net tangible assets;</i> • <i>pledging of shares by the controlling shareholder, any initial management shareholder or any significant shareholder to secure debts of the enterprise, or to secure guarantees or support other obligations of the enterprise; and</i> • <i>loan agreements which include conditions imposing specific performance obligations on a controlling shareholder where breaches of such obligations will cause a default in respect of loans that are significant to the operations of the enterprise.</i> 3. <i>References to net tangible assets are to the aggregate of capital and reserves (excluding minority interests and intangibles) shown in the enterprise's latest published audited consolidated financial statements.</i> 	<p>GR 17.15 GR 17.16</p> <p>GR 17.18</p> <p>GR 17.19 GR 17.43</p> <p>GR 17.20</p> <p>GR 17.14(2)</p>

Ref.	Requirement	Source
6010	<p><u>Advances to an entity</u></p> <p>Where the enterprise has been required to make disclosure during the period in respect of advances to an entity, and the circumstances giving rise to the disclosure continue to exist at the interim period, the following information (as at the period end) should be included in the interim report:</p> <p>a) details of the balances;</p> <p>b) the nature of events or transactions giving rise to the amounts;</p> <p>c) the identity of the debtor group; and</p> <p>d) interest rate, repayment terms and collateral.</p> <p><i>Note: A general disclosure obligation arises where the relevant advance to an entity exceeds 25% of the issuer's net tangible assets. The expression 'relevant advance to an entity' refers to the aggregate of amounts due from and all guarantees given on behalf of:</i></p> <ul style="list-style-type: none"> • <i>an entity;</i> • <i>the entity's controlling shareholders;</i> • <i>the entity's subsidiaries;</i> • <i>the entity's affiliated companies; and</i> • <i>any other entity with the same controlling shareholder as the entity in question.</i> 	<p>GR 18.55 GR 17.15 GR 17.16 GR 17.17 GR 17.22</p>
6011	<p><u>Financial assistance and guarantees to affiliated companies of the issuer</u></p> <p>Where the enterprise has been required to make disclosure during the period in respect of financial assistance and guarantees to affiliated companies, and the circumstances giving rise to the disclosure continue to exist at the interim period end, the annual report should include a proforma combined balance sheet of affiliated companies as of the latest practicable date.</p> <p><i>Notes:</i></p> <p>1. <i>A general disclosure obligation arises where financial assistance given to affiliated companies of the enterprise, and guarantees given for facilities granted to affiliated companies, together in aggregate exceed 25% of the enterprise's net tangible assets</i></p>	<p>GR 18.55 GR 17.18 GR 17.24</p>

Ref.	Requirement	Source
6012	<p data-bbox="365 258 1117 512">2. <i>The proforma combined balance sheet of affiliated companies should include significant balance sheet classifications and state the attributable interest of the enterprise in the affiliated companies. In cases where it is not practicable to prepare the proforma combined balance sheet of affiliated companies, the Exchange, on application from the enterprise, may consider accepting, as an alternative, a statement of the indebtedness, contingent liabilities and capital commitments as at the end of the period reported on by affiliated companies.</i></p> <p data-bbox="365 543 1029 600"><u><i>Pledging of shares by the controlling shareholder, any initial management shareholder or any significant shareholder</i></u></p> <p data-bbox="365 632 1117 800">Where the enterprise has been required to make disclosure during the period because the controlling shareholder, any initial management shareholder or any significant shareholder has pledged its interest in shares of the enterprise to secure debts of the enterprise, and the circumstances continue to exist at the date of the interim report, the following disclosures should be made in the interim report:</p> <ul style="list-style-type: none"> <li data-bbox="365 831 786 856">a) the number and class of shares pledged; <li data-bbox="365 888 1117 945">b) the amount of debts, guarantees or other support for which the pledge is made; <li data-bbox="365 976 1117 1056">c) in the case of an initial management shareholder or a significant shareholder, details of any disposal or planned disposal of shares; and <li data-bbox="365 1087 1117 1144">d) any other details that are considered necessary for an understanding of the arrangements. <p data-bbox="365 1176 1117 1316"><i>Note: A general disclosure obligation arises where the controlling shareholder, any initial management shareholder or any significant shareholder of the enterprise has pledged its interest in shares of the enterprise to secure debts of the enterprise or to secure guarantees or support other obligations of the enterprise.</i></p>	GR 18.55 GR 17.19 GR 17.43 GR 17.23

Ref.	Requirement	Source
6013	<p><u><i>Loan agreements imposing specific performance on controlling shareholder</i></u></p> <p>Where the enterprise has been required to make disclosure during the period in respect of loan agreements with covenants relating to specific performance of the controlling shareholder, and breaches of such obligations will cause a default in respect of loans that are significant to the enterprise, and the circumstances continue to exist at the date of the interim report, the following disclosures should be made in the interim report:</p> <ul style="list-style-type: none"> a) the aggregate level of the facilities that may be affected by such a breach; b) the life of the facility; and c) the specific obligation imposed on any controlling shareholder. <p><i>Note: A general disclosure obligation arises where the enterprise (or any of its subsidiaries) has entered into a loan agreement that includes a condition imposing specific performance obligations on any controlling shareholder (e.g. a requirement to maintain a specified minimum holding in the share capital of the issuer), and breach of such obligation will cause a default in respect of loans that are significant to the operations of the enterprise.</i></p> <p><i>Breaches of loan agreements – general</i></p>	<p>GR 18.55 GR 17.20 GR 17.23</p>
6014	<p>If disclosure has been required during the period of a breach of terms of a loan agreement by the enterprise, and the circumstances continue to exist at the date of the interim report, disclosure of the circumstances is also required in the interim report.</p> <p><i>Note: A general disclosure obligation arises where there is a breach of the terms of loan agreements by the enterprise for loans which are significant to the operations of the enterprise, such that the lenders may demand immediate repayment of the loans and where the lenders have not issued a waiver in respect of the breach.</i></p>	<p>GR 18.55 GR 17.21 GR 17.23</p>

Ref.	Requirement	Source
	<i>Other information</i>	
6015	The enterprise should disclose particulars of any purchase, sale or redemption by the issuer or any of its subsidiaries, of its listed securities during the relevant period, <u>or make an appropriate negative statement.</u>	GR 18.55 GR 18.50 GR 18.66
6016	<p>Each interim report should contain, in a prominent position and in bold type, a statement about the characteristics of GEM, as follows:</p> <p><i>"Characteristics of The Growth Enterprise Market (GEM) of The Stock Exchange of Hong Kong Limited (the Exchange)</i></p> <p><i>GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.</i></p> <p><i>Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.</i></p> <p><i>The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers."</i></p>	GR 18.55 Note 4 GR 2.20

Ref.	Requirement	Source
6017	<p>The enterprise should provide an explanatory statement relating to the activities of the enterprise and profit (or loss) during the relevant period which must include any significant information enabling investors to make an informed assessment of the trend of the activities and profit (or loss) of the enterprise together with an indication of any special factor which has influenced those activities and the profit (or loss) during the period in question, and enable a comparison to be made with the corresponding period of the preceding financial year and must also, as far as possible, refer to the prospects of the enterprise in the current financial year.</p>	<p>GR 18.55 GR 18.59</p>
6018	<p>The enterprise should disclose any supplementary information which, in the opinion of the directors, is necessary for a reasonable appreciation of the results for the relevant period.</p>	<p>GR 18.55 GR 18.61</p>
6019	<p>In the case of the half-year report of an enterprise for the financial year in which its securities are first admitted to listing on GEM (where the half-year end in question follows listing) and the half-year reports for the 2 financial years thereafter, a detailed statement by the directors is required as to the progress of the enterprise by comparison of actual business progress to the information provided in the statement of business objectives (as set out in the listing document) for the equivalent period, together with an explanation of any material differences (including as to its use of proceeds, as indicated in the listing document).</p> <p><i>Note: This rule is not applicable to the quarterly reports of the enterprise.</i></p>	<p>GR 18.55 GR 18.62</p>
6020	<p>Information as to the interests (if any) of the Sponsor and its directors, employees and associates, as notified to the enterprise pursuant to paragraph 6.36 of the GEM Rules and all directors and management shareholders of the issuer and their respective associates.</p>	<p>GR 18.55 GR 18.63</p>
6021	<p>Each half-year and quarterly report must state where or not the information provided therein has been audited (and if so, must set out a copy of the auditors' report thereon). In the event that any auditors' report thereon (if any) has been qualified or modified, details of such qualification or modification must be set out in the half-year or quarterly report, as appropriate.</p>	<p>GR 18.55 GR 18.64</p>

APPENDIX III

ILLUSTRATIVE QUESTIONS FOR AUDIT COMMITTEE REVIEW

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ILLUSTRATIVE QUESTIONS THE AUDIT COMMITTEE MIGHT ASK DURING THEIR REVIEW OF AN INTERIM FINANCIAL REPORT

Note: The questions set out below are intended to illustrate the type of enquiries that the audit committee might make in carrying out their review of an interim financial report. While many of these questions will be widely applicable, the audit committee will need to be satisfied that its review is properly focussed on the issues which are of particular relevance to the enterprise's interim financial report. Accordingly, these illustrative questions do not provide a comprehensive framework for a review by the audit committee of an interim financial report.

General

- ⇒ How do the interim results compare with budget? What are the reasons for any variances?
- ⇒ What are the contributions to turnover and operating results from the key segments of the business? Are any operating segments contributing a loss?

About the appropriateness and consistent application of significant accounting policies

- ⇒ Do the accounting policies adopted for the interim period comply with applicable Accounting Standards?
- ⇒ Has the interim financial report been prepared based on the same accounting policies as were applied in the preparation of the last annual financial statements (or, for a newly listed enterprise, in its prospectus) except for accounting policy changes made that are to be reflected in the next annual financial statements?
- ⇒ Have there been any significant changes in applicable Accounting Standards during the period or new Interpretations which will be applicable for the next annual financial statements and which, therefore, should be adopted for the interim period?

About judgemental issues and accounting estimates

- ⇒ Have measurements for interim reporting purposes been made on a year-to-date basis? Has there been any anticipation or deferral of revenue/costs at the interim reporting date that would not be appropriate at the end of the financial year?

- ⇒ What are the significant accounting estimates based on judgement which have been made in preparing the interim financial report? For example, provisions for doubtful debts and inventory obsolescence and for warranties and accruals? Have those estimates been made based on assumptions that are reasonable and appropriate?
- ⇒ How does the provision for doubtful receivables compare with the prior year's provision and the level of receivables? What is the average age of accounts receivable compared with a year ago, and how is the change explained? Is the company following an appropriate credit policy? Are there large individual amounts where collectibility is in question? Have receivables been discounted or pledged? Are there receivables from officers or other management employees?
- ⇒ Were any significant write-downs made? Generally, what steps have been taken to establish that inventories do not include obsolete or excess items for which provision is required?
- ⇒ What is the basis of valuation of the enterprise's investments in securities? Has there been any impairment in value for which a loss should be recognised? Have there been any movements during the period which would require a re-examination of the classification of any investments?
- ⇒ Is the enterprise's policy regarding amortisation of intangible assets realistic?
- ⇒ For property, plant and equipment accounted for on a cost basis, has there been any impairment in value for which a loss should be recognised? Are the rates of depreciation adopted by the enterprise reasonable?
- ⇒ Have up-to-date valuations been obtained for property, plant and equipment accounted for on a revaluation basis and for the enterprise's investment properties? If not, have the valuations adopted at the previous annual reporting date been reconsidered to ensure that there is no indication of significant fluctuations in market value that should be accounted for in the interim period?

- ⇒ How does the book value of the enterprise's investments in overseas enterprises compare with cost? What is the total amount at risk when intercompany receivables and temporary advances are considered? How does the enterprise effectively hedge its exposure?
- ⇒ Has the provision for income taxes for the interim period been estimated on a reasonable and appropriate basis? What is the status of income taxes for prior periods, such as open years and items in dispute? Does the accrual for income taxes appear to be adequate to cover possible assessments upon examination by the Inland Revenue Department?
- ⇒ Have appropriate steps been taken to measure contingencies in respect of which provision may be required in the financial statements?
- ⇒ Have assets been reviewed for impairment and, if indicated, have impairment write downs been made?

About the adequacy and understandability of disclosures

- ⇒ Have all disclosures been made in accordance with the requirements of the Listing Rules and SSAP 25 *Interim Financial Reporting*?
- ⇒ Does the Management Discussion and Analysis included in the interim report include significant information needed for investors to make an informed assessment of the trend of the enterprise's activities and profit or loss? Does it identify and explain any special factors that have influenced the enterprise's activities and its results during the period? Does it provide a comparison with the corresponding period of the preceding financial year and give, as far as possible, an indication of the enterprise's prospects for the current financial year?
- ⇒ Have any significant changes in accounting policies, including those required by an Accounting Standard, been properly disclosed together with the reasons for the change in accounting policy?
- ⇒ Have all relevant items been properly disclosed in the primary statements?

- ⇒ Have significant acquisitions or disposals of subsidiaries, associates, and joint ventures been disclosed?
- ⇒ Were there any important transactions with related parties and have they been adequately disclosed?
- ⇒ Are other enterprises in our industry giving more or less information than we are planning to give?
- ⇒ Are assertions made or implied in the interim report as to the likelihood of the enterprise continuing as a going concern in the ensuing financial year appropriate in the light of key financial ratios, relationships with finance providers and the enterprise's prospects generally?
- ⇒ Has the enterprise complied with finance related debt covenants, or have waivers been required? Have all significant restrictions been disclosed?
- ⇒ Are there any contingencies of a legal or other nature which require disclosure?
- ⇒ Has the enterprise made any unusual commitments which require disclosure?
- ⇒ Does the enterprise have any exposures arising from environmental regulations which require disclosure?
- ⇒ Generally, is any supplementary information necessary for a reasonable appreciation of the interim results?

About inconsistencies within the interim report

- ⇒ Is the description of the group's performance in the Management Discussion and Analysis consistent with the view given by the interim financial information?

About material, non-recurring items which may be considered unusual

- ⇒ Are there any material unusual items reflected in the operating results for the period? Have they been properly disclosed?

About any concerns of the auditors

- ⇒ If the interim financial report has been subject to review by the auditors, have the auditors expressed any disagreements with the directors as to accounting, auditing or reporting matters?

About other matters

- ⇒ Does the reporting enterprise have any significant off-balance sheet financing arrangements?
- ⇒ Does the reporting enterprise have any exposures arising from its use of complex financial instruments?

APPENDIX IV

INTERNATIONAL COMPARISON

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INTERNATIONAL COMPARISON

This section provides a brief summary of the requirements for interim reporting in other accounting regimes.

International Accounting Standards

Under International Accounting Standards, interim reports are dealt with in IAS 34 *Interim Financial Reporting*.

IAS 34 does not mandate which enterprises should publish interim financial reports, how frequently or how soon after the end of an interim period they should be issued. Such matters will be decided by local regulators. However, the International Accounting Standards Committee encourages publicly-traded enterprises to provide interim financial reports that conform to the recognition, measurement and disclosure principles set out in IAS 34, at least as of the end of the first half of their financial year, such reports being made available not later than 60 days after the end of the interim period. Where an interim report describes it is prepared in compliance with IAS then it must comply with IAS 34 and all other applicable standards and Interpretations.

For practical purposes, the requirements of IAS 34 as regards disclosure and measurement rules are identical to the contents of Hong Kong's SSAP 25 as discussed elsewhere in this publication.

Peoples' Republic of China (PRC)

There are no existing PRC accounting standards specifically dealing with interim reporting, other than an exposure draft on interim reporting issued in 1999. That Exposure Draft is based on the IAS 34 and is expected to be issued by the end of 2000. The Exposure Draft recommends the inclusion of a balance sheet, income statement and cash flow statement in the interim report, together with comparative figures. Under the Exposure Draft, the general recognition and measurement principles are the same as those specified in IAS 34 (i.e. the same as those specified in Hong Kong's SSAP 25).

All PRC enterprises are required to file various quarterly and monthly statements with their investors, local tax authorities, local finance bureaux and relevant administrative departments, as appropriate. Listed enterprises are required by the listing regulations to make more extensive disclosures. The listing regulations require a listed enterprise to file its interim report within 60 days after the end of the first half year. The disclosure requirements for a listed enterprise include:

- a balance sheet and an income statement with comparative figures;
- financial ratios such as earnings per share, net assets per share and net assets return rate;
- significant contracts (such as guarantees and collaterals) and litigation or, if there are no such contracts or litigation, a statement of that fact;
- the names of shareholders having an interest of 5% or more in the listed enterprise and any movements in such shareholdings. If the number of shareholders having an interest of 5% or more in the listed enterprise is less than ten, the ten largest shareholders should be disclosed;
- details of any subsidiary excluded from the consolidated interim financial statements, including the reason for such exclusion, the name of the subsidiary, its total assets, net assets and net profits;
- segment information for segments of which the turnover represents 10% or more of the total turnover; and
- significant related party transactions.

Under the listing regulations, an audited interim report is required in the following circumstances:

- the listed enterprise has suffered losses for two consecutive years;
- the listed enterprise intends to make a rights issue of shares in the second half year;
- an interim dividend policy or capitalisation issue is planned to be implemented in the second half year; or
- other matters stipulated by the China Securities Regulatory Commission or the relevant stock exchange.

If there is an audit qualification or an explanatory paragraph in the auditors' report, this fact should be disclosed in the interim report. If an audited interim report is required, a cash flow statement for the current six-month period should be prepared.

United Kingdom

In the United Kingdom, the requirement to prepare an interim report is set out in the Listing Rules of the London Stock Exchange. The requirement to report is therefore limited to listed companies (whether on the Main Board or the Alternative Investment Market).

Listed companies are required to prepare a half-yearly report on their activities and profit or loss for the first six months of each financial year. The interim report must be published within four months of the interim reporting date.

The Listing Rules contained limited requirements for the content of interim reports. Disclosure is required of headline income statement information, and of any change in the accounting policies used in the preparation of the interim report. In addition, an explanatory statement is required which includes:

- any significant information enabling investors to make an informed assessment of the trend of the group's activities and profit or loss;
- an indication of any special factors that have influenced those activities and the profit or loss during the period;
- enough information to enable a comparison to be made with the corresponding period of the preceding financial year; and
- so far as possible, a reference to the group's prospects in the current financial year.

The Listing Rules do not require that interim reports be audited, but auditors are frequently asked by the directors to review the financial information before it is published. Where such a review is carried out, the auditors' report is required to be reproduced in full.

Best practice in interim reporting has advanced beyond the requirements of the Listing Rules. In response to the move towards increased transparency in reporting by listed companies, the Accounting Standards Board has developed a Statement on Interim Reporting. That Statement is a statement of best practice and compliance is not mandatory.

The Statement on Interim Reporting recommends the inclusion of a summarised profit and loss account, balance sheet, statement of total recognised gains and losses, and cash flow statement in the interim report. The Statement specifies the minimum headings required. The Statement on Interim Reporting also recommends the inclusion of explanatory notes similar to those specified by Hong Kong's SSAP 25.

Measurement rules specified by the Statement on Interim Reporting are generally consistent with those established in Hong Kong's SSAP 25.

United States

APB Opinion 28 *Interim Financial Reporting* (APB 28) sets out the principles of accounting measurement that should be applied in interim financial reporting and prescribes certain disclosures that should be made in interim financial reports.

In addition, the Securities and Exchange Commission (SEC) has issued specific rules for the presentation of interim financial information for a public enterprise that issues condensed interim financial statements in Form 10-Q, the quarterly report for domestic registrants. Form 10-Q is required to be filed within 45 days after each of the first three fiscal quarters of each fiscal year. No report need be filed for the fourth quarter of the fiscal year.

Foreign issuers that file annual reports on Form 20-F are not required to file quarterly reports on Form 10-Q. Rather, such issuers must submit Form 6-K reports containing information made public pursuant to foreign law, stock exchange regulations or distributed to security holders.

In general, APB 28 requires the results for each interim period to be based on the accounting principles and practices used by an enterprise in the preparation of its latest annual financial statements, unless a change in an accounting practice or policy has been adopted in the current year. However, it also requires that certain modifications should be made to those policies at interim reporting dates so that the reported results for the interim period may better relate to the results of operations for the annual period. Modifications to the application of accounting policies at an interim reporting date include:

- the deferral of purchase price variances and volume or corporate cost variances that are expected to be absorbed by the year-end;
- the accrual or deferral of costs that clearly benefit two or more periods; and
- non-recognition of inventory losses from temporary market downturns at the interim reporting date if no loss is expected to be incurred in the fiscal year

While APB 28 does not specify the components of an interim financial report, it does require certain disclosures for publicly traded companies.

SEC Regulation S-X requires the presentation of a condensed interim balance sheet, income statement, and statement of cash flows. Detailed footnote disclosures and Regulation S-X schedules are not required. However, disclosures should be sufficiently detailed such that the information presented is not misleading.

In the past, form 10-Q financial information was not required to be audited or reviewed by an independent accountant. In December 1999, the SEC Rules were amended to require that, prior to filing, interim financial statements included in quarterly reports on Form 10-Q, for quarters ending on or after March 15, 2000, should be reviewed by an independent public accountant.

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