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THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

ANNOUNCEMENT

**Disclosure requirements in relation to the impact of new accounting standards
on financial information in initial listing documents and circulars**

A number of new International Financial Reporting Standards and Hong Kong Financial Reporting Standards became effective for accounting periods beginning on or after 1 January 2005 (the "New Standards"). Those accounting standards in issue and with an effective date earlier than 1 January 2005 are described as "Old Standards" in this announcement.

To facilitate compliance with the Listing Rules, the Exchange wishes to clarify, by way of this announcement, the additional disclosure requirements applicable in relation to the impact of the New Standards on financial information disclosed in initial listing documents and circulars.

A. Application of Accounting Standards

The accounting standard on "Accounting Policies, Changes in Accounting Estimates and Errors" specifies whether the adoption of any particular new accounting standard should be applied retrospectively or prospectively. It requires the specific transitional provisions, if any, in the relevant accounting standard to be followed. In the absence of any transitional provisions in the accounting standards, the change in accounting policy should be applied retrospectively, unless it is impracticable to determine the effect of the change. In preparing financial information in the accountants' report for initial listing documents or circulars, applicants and listed issuers are required to conform to the accounting standards including the transitional provisions on initial application of the accounting standards.

B. Initial Listing Documents

Applicants are generally encouraged to adopt the New Standards early. An applicant may choose to prepare its financial information in the accountants' report using the applicable Old Standards or to adopt some or all of the New Standards early.

For the purpose of Main Board Listing Rule 8.05, the profit requirement will be assessed with reference to historical financial information prepared using either the Old Standards in their entirety, or the New Standards in their entirety. Information for the assessment of Main Board Listing Rule 8.05 must be capable of direct extraction from the primary statements in the accountants' report or incorporated in the notes to the financial information in the accountants' report.

An applicant must apply the same accounting policies in preparing financial information for the stub period and profit forecast. This is because the stub period forms part of the forecast period and the same accounting standards should be consistently applied. The same accounting policies should also be applied in preparing the historical financial information (including the stub period). The accounting policies used for the preparation of the profit forecast should be the same as those adopted for the preparation of the annual financial statements covering the forecast period. Any change in accounting policies will not normally be allowed.

Additional disclosures

Main Board Listing Rule 4.13 and GEM Listing Rule 7.17 require that the relevant accounting standards to be used by new applicants for preparing financial information for inclusion in accountants' reports will normally be those current in relation to the last financial year reported on and, wherever possible, appropriate adjustments must be made to show profits for all periods in accordance with such standards.

1. Historical financial information in accountants' report prepared using Old Standards (those being the applicable accounting standards) and where some (but not all) New Standards are adopted

- a. Where the applicable accounting standards are the Old Standards and the applicant adopts some (but not all) New Standards early in the preparation of historical financial information in the accountants' report, it will be **required**, for the purpose of Main Board Listing Rule 8.05, to disclose:
 - i. the rationale and a detailed explanation as to why the selected New Standards have been chosen for early adoption;
 - ii. qualitative information on the prospective changes in the accounting policies relating to the New Standards that were not chosen for early adoption; and
 - iii. a statement of the financial effect on the profit attributable to shareholders for each of the periods reported on within the track record period showing the effect of all New Standards that have been chosen for early adoption.

The information must be disclosed in the notes to the historical financial information in the accountants' report. The reporting accountants are required to express a "true and fair" opinion on the historical financial information, which includes the notes to the financial information.

- b. Where an applicant prepares and discloses its profit forecast using the New Standards, it will be **required** to disclose in the profit forecast section of the prospectus the new accounting policies adopted.
- c. Where an applicant prepares and discloses its profit forecast using the same accounting policies that it adopts for preparing the historical financial information, it will be **encouraged** to disclose adjustments to the forecast profit from the accounting policies adopted for the preparation of the profit forecast to the New Standards. Detailed

disclosure requirements are similar to those set out in paragraph B(2)(III)(a) below.

- d. Where an applicant prepares the first set of annual financial statements after listing using the New Standards, it will be **required** to disclose qualitative information on the prospective changes in accounting policies and a statement of the financial effect of the changes on the net profits and net assets. Detailed disclosure requirements are similar to those set out in paragraph B(2)(II)(b) below.
- e. Where an applicant prepares the first set of annual financial statements after listing using the same accounting policies that it adopts for preparing the historical financial information, it will be **encouraged** to disclose a statement of the financial effect of the changes on the net profits and net assets. Detailed disclosure requirements are similar to those set out in paragraph B(2)(I)(b) below.

2. Historical financial information in accountants' report prepared under Old Standards

Where an applicant prepares the historical financial information using the Old Standards, additional disclosures will be required to enable investors to ascertain the impact of the New Standards on the financial information in the accountants' report in the initial listing document. Set out below are the additional disclosure requirements in different situations.

I. *First set of annual financial statements published after listing prepared using Old Standards*

The applicant will be:

- a. **required** to disclose qualitative information on the prospective changes in accounting policies. The information must be disclosed in the financial information section of the prospectus;
- b. **encouraged** to disclose a statement of the financial effect of prospective changes on the net profits and net assets of the most recent financial year of the track record period from the Old Standards to the New Standards. Such statement must be disclosed in the notes to the financial information in the accountants' report. The reporting accountants are required to express a "true and fair" opinion on the historical financial information, which includes the notes to the financial information; and
- c. **encouraged** to disclose adjustments to the forecast profit from the Old Standards to the New Standards, presented in columnar format showing separately the forecast profit prepared using Old Standards, the adjustments and the adjusted forecast profit, where the applicant publishes a profit forecast in the prospectus. The information must be disclosed in the profit forecast section of the prospectus. The qualitative information on the prospective changes in accounting policies must be shown as part of the assumptions for the profit forecast. The comfort

letter from the reporting accountants on the profit forecast must also confirm that the adjustments contained in the profit forecast section have been properly prepared in accordance with the bases and assumptions set out in the prospectus. The first set of annual financial statements after listing must be prepared using the Old Standards, the profit forecast using the same accounting standards will be used to assess whether profit forecast has been met.

II. First set of annual financial statements published after listing prepared using New Standards

The applicant will be **required** to make the following additional disclosures:-

- a. Disclosure of accounting policies
 - i. Where an applicant includes a profit forecast in prospectus, it will be **required** to disclose details of the new accounting policies adopted. The information must be disclosed in the profit forecast section of the prospectus.
 - ii. Where an applicant does not include a profit forecast in the prospectus, it will be **required** to disclose qualitative information on the prospective changes in accounting policies. The information must be disclosed in the financial information section of the prospectus.
- b. Disclosure of financial impact
 - i. Where an application is submitted on or after the date of this announcement, being 3 May 2005, but on or before 30 June 2005, the applicant will be **required** to disclose a statement of the financial effect of prospective changes on the net profits and net assets of the most recent financial year of the track record period from the Old Standards to the New Standards. Such statement must be disclosed in the notes to the financial information in the accountants' report. The reporting accountants are required to express a "true and fair" opinion on the historical financial information, which includes the notes to the financial information.
 - ii. Where an application is submitted after 30 June 2005, the applicant will be **required** to disclose a statement of the financial effect of prospective changes on the net profits and net assets for each period reported within the track record period from the Old Standards and the New Standards. Such statement must be disclosed in the notes to the financial information in the accountants' report. The reporting accountants are required to express a "true and fair" opinion on the historical financial information, which includes the notes to the financial information.

III. First set of annual financial statements published after listing prepared using Old Standards (those being the applicable accounting standards) and where some (but not all)

New Standards are adopted

- a. Where the applicable accounting standards are the Old Standards and the applicant includes a profit forecast using these standards and some (but not all) New Standards, it will be:-
 - i. **required** to disclose details of the new accounting policies adopted ; and
 - ii. **encouraged** to disclose adjustments to the forecast profit from the accounting policies adopted for the preparation of the profit forecast to the New Standards, presented in columnar format showing separately the forecast profit prepared using Old Standards and some (but not all) New Standards, the adjustments and the adjusted forecast profit.

The information must be disclosed in the profit forecast section of the prospectus. The qualitative information on the prospective changes in accounting policies must be shown as part of the assumptions for the profit forecast. The comfort letter from the reporting accountants on the profit forecast must also confirm that the adjustments contained in the profit forecast section have been properly prepared in accordance with the bases and assumptions set out in the prospectus. The first set of annual financial statements after listing must be prepared using Old Standards (those being the applicable accounting standards) and some (but not all) New Standards, the profit forecast prepared using the same accounting standards will be used to assess whether the profit forecast has been met.

- b. Where the historical financial information is presented using the Old Standards, the applicant will be **required** to disclose qualitative information on the prospective changes in accounting policies and a statement of the financial effect of prospective changes on the net profits and net assets of the most recent financial year of the track record period from the Old Standards to the accounting standards that will be used in the preparation of the first set of annual financial statements. Such statement must be disclosed in the notes to the financial information in the accountants' report. The reporting accountants are required to express a "true and fair" opinion on the historical financial information, which includes the notes to the financial information.

C. Circulars

Main Board Listing Rules 14.67(4) and 14.69(4) and GEM Listing Rules 19.67(4) and 19.69(4) require that the financial information in the accountants' report of an acquiree company must be prepared using accounting policies materially consistent with those of the listed issuer. In certain circumstances this may result in the financial information in accountants' report of the acquiree company being prepared using accounting standards adopted by the listed issuer which are different to those adopted by that issuer in preparing its latest published financial information. In these circumstances, the balance sheet and income statement of the acquiree company must, for the purpose of preparing pro forma financial information as required under Main Board Listing

Rule 4.29 and GEM Listing Rule 7.31, be restated to the applicable accounting standards adopted by the listed issuer in preparing its latest published financial information.

The restated balance sheet and income statement of the acquiree company must be disclosed in the pro forma financial information section of the circular. The auditors or reporting accountants are required to report on the pro forma financial information in the circular, which will include the restated balance sheet and income statement.

Where the pro forma financial information is not prepared using the New Standards, the listed issuer will be encouraged to show, by way of a note to the pro forma financial information, the possible effect of changes resulting from adopting of New Standards in preparing its subsequent financial statements.

D. General

For all listing applications, including very substantial acquisitions treated as new listing applications, where the advance booking Form A1 (for Main Board) or Form 5A (for GEM) submitted before 3 May 2005 and for circulars not yet published in relation to transactions announced before 3 May 2005, the Exchange will encourage, but not require, applicants and listed issuers to provide the additional disclosures set out in this Announcement.

The additional disclosure requirements set out in this Announcement will cease to apply to initial listing documents when the applicable accounting standards used for preparing financial information in accountants' report for initial listing document are the New Standards. The additional disclosure requirements in this Announcement will cease to apply to circulars when the applicable accounting standards used by a listed issuer for preparing its latest published financial information are the New Standards.

The additional disclosure requirements for initial public offerings under different scenarios have been set out in a table, which is published on the HKEx's website at <http://www.hkex.com.hk/news/hkexnews/0504295news.pdf>. The table has been included for illustrative purposes only and users should refer to the contents of this Announcement for the detailed additional disclosure requirements.

Prospective applicants, listed issuers and their advisers are encouraged to consult the Exchange at an early stage if they have any questions regarding the disclosure requirements set out in this Announcement.