

**HKEx LISTING ENFORCEMENT GUIDANCE LETTER**  
Cite as HKEx-LEGL01-08 (November 2008)

Summary	
<b>Listing Rule</b>	Main Board Listing Rule 2.13(2)
<b>Subject</b>	Guidance on arrangements to maintain effective accounting procedures and controls following the implementation of revised accounting standards
<b>Contents</b>	Extracts of a No Further Action (Guidance) letter from an authorised signatory of the Stock Exchange of Hong Kong

[\*Date]

[Name and Address of Listed Issuer]

Dear Sirs,

[Name of Listed Issuer] (the “**Company**”, together with its subsidiaries, the “**Group**”)  
**No Further Action: Guidance**

We refer to earlier correspondence concerning the captioned matter resting with your letter dated [\*day \*month \*year].

**Materials Reviewed**

The Listing Division (the “**Division**”) refers to the following materials which have been reviewed:

1. the Company’s announcements of various dates [\* dates of the announcements];
2. the Company’s interim report for the 6 months ended [\*day \*month \*year] (the “**Interim Report**”);
3. the Company’s letters dated [\*day \*month \*year], [\*day \*month \*year] and [\*day \*month \*year] to the Division;
4. the 2 Reports of Factual Findings and Recommendations dated [\*day \*month \*year] and [\*day \*month \*year] prepared by [\*]; and
5. the Company’s letters dated [\*day \*month \*year], [\*day \*month \*year] and [\*day \*month \*year].

Thank you for the information and materials provided by the Company which enabled the Division to have a clearer understanding of the matter.

## Facts

1. In the Company's announcement dated [*\*day \*month \*year*] (the "**Announcement**"), the Company disclosed and admitted that there were misstatements (the "**Misstatements**") concerning the amount of the Group's unaudited net profit from ordinary activities attributable to shareholders in the Group's announced results for the quarter ended [*\*day \*month \*year*], the six months ended [*\*day \*month \*year*], and the nine months ended [*\*day \*month \*year*] (collectively referred to as the "**Financial Results**"), as follows:
  - (a) The amount as previously reported in the Company's results announcements (i.e. the Misstatements): [*\*the respective amounts*]; and
  - (b) The properly restated amount: [*\*the respective amounts*].
2. The Misstatements in respect of the Group's results for the 6 months ended [*\*day \*month \*year*] also appeared in the Company's Interim Report.

## Analysis

1. Based on the materials made available, the Division understands that the Misstatements were a result of cumulative failings on the part of the Company, including the following:
  - (a) not maintaining a separate [*\*nature of accounting document*] as part of its basic accounting records;
  - (b) failure by the Company's management responsible for the proper functioning of the Company's accounting team and systems (and also the Company's auditors, [*\*name of the Company's auditors*]) to detect this weakness;
  - (c) not raising the issue of the absence of [*\*nature of accounting document*] with the Company's Audit Committee or the Board;
  - (d) no formal engagement of the Company's auditors at the material time to assist the Company's Accounting Department in ensuring that the consequences of adoption of HKAS [*\*number*] were comprehensively addressed; and
  - (e) a fundamental conceptual error on the part of the relevant accounting staff in preparing, reviewing and approving the journal entries for the [*\*relevant*] investment portfolio.
2. Having reviewed the materials made available to the Division, and in view of the circumstances of the matter, the Division is of the view that cumulative failures may in other circumstances lead to disciplinary action against the Company.
3. However, in the circumstances of this case, the failures may not have been material from the perspective of Rule 2.13 and consequently no further action will be taken in respect of this matter. The Division notes, in particular, the Company's submission that the Misstatements did not have any material impact on the fundamental financial position of the Company, and the Misstatements of the profit and loss accounts were counter-balanced by corresponding understatements in the reserves. Further, the fact

that [*\*another regulatory body*] has decided not to pursue this matter has also been taken into account. In addition the Listing Division has taken advice on the materiality of the Misstatements from an independent analyst in the [*\*relevant industry*] sector working for a firm with an international name and reputation. The analyst's views broadly support the position adopted by the Company.

In the circumstances, the Division has decided not to take any further action on the matter. However, the Division is of the view that it is appropriate that this guidance letter be issued to you.

### **Guidance**

1. The Division is of the view that it is of utmost importance that a listed issuer has in place an effective accounting system to ensure that accurate periodic financial reports are prepared and published for the company's shareholders and the investing public in a timely manner. This will contribute towards maintaining a fair and orderly market for the trading of a listed issuer's securities. Accounting staff members of the Company should be properly supervised by experienced (and preferably professionally qualified) staff who in turn should report to the senior management, including the Audit Committee, on a regular basis.
2. Whenever the Company considers the adoption of a new accounting policy or standard, the Company should seek, where deemed necessary, external professional advice, including advice on the steps which should be taken by the Company to ensure proper implementation of the new accounting policy. This would assist the Company's accounting department in ensuring that they fully understand and can address all issues arising from the adoption of the new accounting policy. It is advisable that where advice is sought, it should be clearly defined and set out in writing.
3. In addition, it is incumbent upon the Company to provide regular and adequate internal or external training to all staff who are involved in accounting and financial reporting matters so that they are aware of the impact of new developments, and can prepare for the proper implementation of new accounting policies and standards.
4. The Division would also draw your attention to section C of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules which provides further guidance on financial reporting and internal control matters. Code 3.2.1 provides that there should be at least an annual review of the effectiveness of the Company's internal control systems.
5. In the Division's view, if the Company had followed the above-mentioned guidance, the Misstatements on the implementation of HKAS [*\*number*] might have been prevented.

### **Invitation to Comment**

[*Portion of Letter Purposely Omitted*] we invite the board of directors of the Company to comment on this letter if they wish. Your submission, together with this letter, will be placed on the Company's compliance file. No further action will be taken in respect of this matter which is now considered closed.

## **Publicity**

We wish to inform you that, at an appropriate time, the Division may, in the discharge of its regulatory function, publicize certain facts and guidance given in this letter. This would be done on an anonymous and redacted basis, to explain our views on the issues raised by this case for the benefit of the market as a whole. If such disclosure is made it may be published on our website and in our quarterly publication “Exchange”.

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

*[Signed]*

*[Authorised Signatory]*