

Frequently Asked Questions Series 11 (Released on 20 May 2010 / Last Updated on 1 March 2019)

Rule amendments relating to circulars and listing documents of listed issuers (effective 3 June 2010)

Status of “Frequently Asked Questions”

The following frequently asked questions (FAQs) are designed to help issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our “answers”, we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Division may be consulted on a confidential basis. Contact the Listing Division at the earliest opportunity with any queries.

Part 1 – Notifiable Transactions

No.	Main Board Rules	GEM Rules	Query	Response
<u>Financial disclosure requirements on circulars for very substantial disposals (VSDs)</u>				
1.	14.68(2)(a)(i)	19.68(2)(a)(i)	<p>An issuer chooses to disclose the issuer group’s financial information with separate disclosure on the disposal target (i.e. option (B) in the rule) in its VSD circular.</p> <p>(a) What financial information about the disposal target should be disclosed?</p> <p>(b) Can the auditors or reporting accountants give a review opinion on the issuer group’s audited financial information? Should the issuer include an accountants’ report instead of a review of the financial information?</p>	<p>(a) There should be a separate note with information on the disposal target’s figures included in the issuer group’s balance sheet, income statement and cash flow statement. Normally this includes the target’s balance sheet, income statement and cash flow statement. The information is required to prepare pro forma financial information for the remaining group.</p> <p>(b) The issuer should consult its auditors and reporting accountants, and decide the appropriate type of assurance.</p>
2.	14.68(2)(a)(i)	19.68(2)(a)(i)	<p>This rule requires the financial information to comprise the balance sheet, the income statement, the cash flow statement and the statement on changes in equity. What should be included in these statements?</p>	<p>They should include, at least, each of the major components and line items presented in the issuer’s latest published annual accounts.</p>

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3.	14.68(2)(a)(i)	19.68(2)(a)(i)	<p>“HKAS 1 (Revised) - Presentation of Financial Statements” requires that an entity presents all income and expense items recognised in a period:</p> <p>(a) in a single statement of comprehensive income, or</p> <p>(b) in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).</p> <p>Please clarify the disclosure requirement of “an income statement” under this rule.</p>	Either option (a) or (b) is acceptable.
4.	14.68(2)(a)(i)	19.68(2)(a)(i)	<p>Can Listco disclose financial information partly under option (A) and partly under option (B) in its VSD circular? For example, can Listco disclose:</p> <ul style="list-style-type: none"> - the group’s financial information with separate disclosure on the disposal target under option (B) for three financial years (ended more than 6 	No. The issuer should adopt one of the options for the disclosure of financial information for the entire period which includes three financial years and the stub period.

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			<p>months from the circular date); and</p> <ul style="list-style-type: none"> - the disposal target's financial information under option (A) for the stub period? 	
5.	14.68(2)(a)(i), 4.06(1)(a) note	19.68(2)(a)(i), 7.05(1)(a) note	In a VSD, Listco proposes to sell its interest in a company acquired two years ago. Can Listco include, in the circular, the company's financial information from the acquisition date?	The circular should contain the company's financial information for at least three financial years.
6.	14.68(2)(a)(i)	19.68(2)(a)(i)	Which standard should auditors or reporting accountants adopt for the review of financial information under this rule?	The review should be conducted according to the relevant HKICPA or IAASB standards. Currently, the applicable standard for a review engagement is HKSRE 2400 / 2410 or ISRE 2400 / 2410.
7.	14.68(2)(a)(i)	19.68(2)(a)(i)	Does an issuer need to publish the auditors' or reporting accountants' review report in a VSD circular?	<p>No, but the circular must state that the financial information has been reviewed by the issuer's auditors or reporting accountants; and, where applicable, contain details of any modifications in the review report.</p> <p>(Note: See FAQ 053-2019 for clarification on the use of the term "modification".)</p> <p><i>(Updated on 1 March 2019)</i></p>

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8.	14.68(2)(a)(i) note 2	19.68(2)(a)(i) note 2	<p>Note 2 to this rule states that the Exchange may relax the disclosure requirement if the disposal target's assets are not consolidated in the issuer's accounts.</p> <p>Under what circumstances would the Exchange relax the disclosure requirement?</p>	<p>There is a similar rule to exempt the accountants' report requirement for an acquisition of a minority interest in a company that constitutes a major transaction. The rule amendments mirror this exemption for VSDs.</p> <p>We would consider, for example, whether the issuer has access to the disposal target's books and records to prepare the required information, and whether the circular has provided shareholders with sufficient information about the disposal, etc. We will give the exemption case by case.</p>
<u>Transaction involving an acquisition and a disposal</u>				
9.	14.24	19.24	Under the amended rule, if a transaction involves a major acquisition and a discloseable disposal, does it mean that only the acquisition and not the disposal requires shareholder approval?	The rule amendment only clarifies the content requirements for the circular. It does not change the requirement as to how to classify a transaction as a whole to determine whether shareholder approval is required. In the circumstances described, the transaction as a whole would be classified as a major transaction and requires shareholder approval.

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10.	14.24	19.24	<p>Listco proposes to sell its interest in a subsidiary in return for cash and the buyer's interest in a target (the Transaction). The sale of the subsidiary is a major transaction and the acquisition of the target is a discloseable transaction.</p> <p>Does the circular need to include the following information?</p> <ul style="list-style-type: none"> - an accountants' report on the target company - a valuation report on the target's property interests (the target is a property company) - pro forma financial information showing the impact of the Transaction on Listco 	<p>As the acquisition is a discloseable transaction, the circular need not contain an accountants' report on the target or a valuation report on the target's property interests.</p> <p>The circular also does not need to contain pro forma financial information on the Transaction because the Rules do not require this information for a major disposal or a discloseable acquisition.</p>
<u>Other requirements</u>				
11.	1.01, 14.41, 14A.46, 14A.48	1.01, 19.41, 20.44, 20.46	<p>Where written shareholder approval has been obtained for a transaction, the amended rule requires an information circular to be despatched within 15 business days after publication of the announcement.</p> <p>If the stock market is open for only half</p>	<p>The Listing Rules define a "business day" as any day on which the Exchange is open for the business of securities dealing. Accordingly if, for whatever reason, the Exchange is open for the business of dealing in securities for only half day, it is counted as a business day.</p>

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			day due to a typhoon or other reason, is it counted as a business day?	<i>Note: Rule reference updated in July 2014.</i>
12.	App 1B - 28	App 1B - 28	Listco proposes to acquire a target company which will become its subsidiary. This is a major transaction. In the circular, should Listco disclose the indebtedness statement of its group and the target company (i) on a combined basis or (ii) separately?	Both methods are acceptable.
13.	App 1B - 31(3)	App 1B - 31(3)	To incorporate information in a circular by reference to another published document, what should be disclosed?	In addition to identifying the information to be incorporated by reference, the issuer should identify the published document with the document name and date, the relevant pages, and where shareholders can access the document (for example, the website address).