Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Our Ref.: C/AASC

30 September 2010

Executive Director, Professional Standards
International Auditing and Assurance Standards Board,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York 10017, USA.

Dear Sir,

IAASB Exposure Draft on ISAE 3420 *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*

The Hong Kong Institute of Certified Public Accountants is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

We welcome the opportunity to provide you with our comments on the IAASB ED on
--- ISAE 3420. Our comments are set out in the attachment.

We trust that our comments are of assistance to you. If you require any clarification of our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/SH/jn
Encl.

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Hong Kong Institute of Certified Public Accountants
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ATTACHMENT

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE IAASB EXPOURE DRAFT ISAE 3420 *ASSURANCE REPORTS ON THE PROCESS TO COMPILE PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS*

Request for Specific Comments

1. **In relation to respondents' roles and responsibilities, would respondents adopt or apply the proposed ISAE, or request an engagement in accordance therewith, if it became effective? If not, please explain why.**

   As you may be aware, the HKICPA has embarked on a project to develop a series of standards and guidance on investment circular reporting - Hong Kong Standards on Investment Circular Reporting Engagements (HKSIR). One of the standards issued under the series is HKSIR 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars". Attached as Appendix 1 is a copy of HKSIR 300 for your information.

   When reporting under HKSIR 300 the reporting accountants provide assurance directly in relation to the pro forma financial information itself. As such HKSIR 300 is aligned with the Listing Rules of The Stock Exchange of Hong Kong Ltd (The Exchange) which require the reporting accountants to report directly on the pro forma financial information. Hence, there is currently no basis for believing that the proposed ISAE which contemplates reporting in relation to the process of the preparation of the pro forma financial information would be applied for local listing engagements in Hong Kong.

   However, we will consider the adoption of the proposed ISAE as part of our International Convergence Programme to provide guidance for engagements undertaken by our members for listing in other jurisdictions.

2. **Do respondents believe that the work effort set out in the proposed ISAE is sufficient and appropriate to enable the practitioner to express an opinion as to whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria?**

   In general, the proposed ISAE sets out sufficient and appropriate work procedures.

   Attached as Appendix 2 is draft guidance, *Best Practice Guidance on Presenting Pro Forma Financial Information*, developed by The Exchange, in consultation with representatives from some of the larger accounting practices in Hong Kong, which may be of interest to IAASB.

   The aim of the draft guidance is to set out the principles for applying the current Hong Kong Listing Rules and to provide guidance on how to present pro forma financial information under specific scenarios. The IAASB may wish to consider the draft guidance and, where, deemed appropriate, incorporate some relevant elements of the guidance that will have more general application in the ED.

3. **Do respondents believe that it is clear from the illustrative practitioner's report in the Appendix to the proposed ISAE that the practitioner is reporting on the process to compile the PFI and not on the PFI itself? Paragraph A52 of the proposed ISAE, in particular, provides two alternatives for the opinion in relation to the process, i.e.**

   - **Whether the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria; or**
   - **Whether the PFI has been properly compiled on the basis stated.**

   There is a concern that providing two alternatives for the opinion in relation to the process may cause confusion. The wording of the second alternative may be read as to provide assurance on the pro forma information itself.

4. **As the proposed ISAE is designed to convey assurance on the process to compile the PFI, do respondents believe that it would be desirable for the IAASB to also develop a separate standard on reporting on the PFI itself? If yes:**

   (a) What do respondents believe would be the work effort implications in undertaking engagements to report on the PFI itself? In particular, how would such work effort differ from that specified in the proposed ISAE?

   (b) Should both reasonable assurance and limited assurance on the PFI be addressed? If so, how should the nature and extent of the practitioner's work effort be differentiated between a reasonable assurance engagement and a limited assurance engagement to report on the PFI?

   To enhance the adoption and implementation of the proposed ISAE, it is desirable for the IAASB to also consider providing guidance on reporting on the PFI itself. However, having two separate standards may be confusing to users.

   In our locally developed HKSIR 300 referred to above, work consists primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments made by the directors and making enquiries of the directors regarding the process by which they have prepared the pro forma financial information.

~ END ~

HKSIR 300
Issued March 2006

Effective for engagements where
the investment circular is dated on or after 1 April 2006

Hong Kong Standard on
Investment Circular Reporting Engagements 300

Accountants' Reports on Pro Forma Financial Information in Investment Circulars

CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

HONG KONG STANDARD ON INVESTMENT CIRCULAR REPORTING ENGAGEMENTS 300

ACCOUNTANTS' REPORTS ON PRO FORMA FINANCIAL INFORMATION IN INVESTMENT CIRCULARS

(Effective for engagements where
the investment circular is dated on or after 1 April 2006)

CONTENTS

Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" should be read in the context of the "Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services" which sets out the application and authority of HKSIRs.

This HKSIR is based on the Listing Rules/GEM Rules that were in effect as at 31 December 2005.

Definitions

The definitions used in this HKSIR are:

a.	*GEM Rules:*	*Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.*
b.	*Investment circular:*	*A document, including a prospectus, circular to shareholders or similar document, issued by an issuer pursuant to the Listing Rules/GEM Rules, the Takeover Code or the Companies Ordinance relating to listed or unlisted securities on which it is intended that a third party would make an investment decision.*
c.	*Issuer:*	*As defined by the Listing Rules/GEM Rules, an issuer is any company or other legal person any of whose equity or debt securities are the subject of an application for listing or some of whose equity or debt securities are already listed.*
d.	*Listing Rules:*	*Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.*
e.	*Prospectus:*	*Any prospectus, notice, circular, brochure, advertisement, or other document offering any shares or debentures of a company to the public for subscription or purchase for cash or other consideration; or circular to invite offers by the public to subscribe for or purchase for cash or other consideration any shares or debentures of a company.*
f.	*Reporting accountant:*	*A professional accountant engaged to prepare public reports and letters for inclusion in, or private letters in connection with, an investment circular. Where the context requires, this term includes auditors where they are carrying out a role in connection with an investment circular, other than that of reporting as auditors on financial statements.*
g.	*Sponsor:*	*An entity appointed under the Listing Rules/GEM Rules by an issuer to provide advice to and assist the issuer in listing, lodging the formal application for listing and supporting documents and dealing with the Stock Exchange.*
h.	*Stock Exchange:*	*The Stock Exchange of Hong Kong Limited.*
i.	*Takeover Code:*	*The Code on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission.*

Introduction

1. The purpose of this HKSIR is to establish specific standards and provide guidance for reporting accountants engaged to issue an accountants' report on pro forma financial information in an investment circular. The standards and guidance are intended primarily for the purpose of reporting under the Listing Rules/GEM Rules. They may also assist in connection with reporting on pro forma financial information in investment circular other than those prepared under the Listing Rules/GEM Rules.

2. The work outlined in this HKSIR, having regard to the nature of pro forma financial information and the opinion required by paragraph 57 below, does not constitute an audit or review in accordance with Hong Kong Standards on Auditing (HKSAs) or Hong Kong Standards on Review Engagements. Such work consists primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments made by the directors and making enquiries of the directors regarding the process by which they have prepared the pro forma financial information.

3. **In an engagement to report on pro forma financial information in investment circulars, reporting accountants should comply with this HKSIR, and to the extent applicable, relevant HKSAs and Hong Kong Standards on Assurance Engagements.**

4. Reporting accountants plan and perform their work so as to obtain sufficient evidence to provide reasonable assurance that:

   a. the pro forma financial information has been properly compiled by the directors of the issuer on the basis stated;

   b. such basis is consistent with the accounting policies of the issuer; and

   c. the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Listing Rule 4.29(1)/GEM Rule 7.31(1).

5. Guidance to the directors of the issuer on the preparation and presentation of pro forma financial information for inclusion in investment circulars is set out in Accounting Guideline (AG) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*.

6. Listing Rule 4.29(1)/GEM Rules 7.31(1) requires that the pro forma financial information presented must not be misleading. In the event that the reporting accountants have reasons to believe that the pro forma financial information is misleading in the context of the purpose for which the pro forma financial information has been presented, they are unable to give the opinion as required in paragraph 58 below until they have resolved the matter. AG 7 provides guidance on judging whether pro forma financial information is misleading.

Nature of Pro Forma Financial Information

7. Pro forma financial information is included in an investment circular to provide users of the investment circular with information about the transaction that is the subject of the investment circular by showing how it might have affected financial information of the issuer if the transaction had been undertaken at the commencement of the financial period used for the illustration or, in the case of a pro forma balance sheet or net asset statement, at the date reported on.

8. For the purpose of this HKSIR "pro forma financial information" includes financial information such as net assets or profit or cash flow statements which demonstrate the impact of a transaction on previously published financial information and the explanatory notes thereto. Under AG 7 and Listing Rule 4.29(2)/GEM 7.31(2) pro forma financial information is accompanied by an introductory text describing its purpose and limitations.

Agreeing the Terms of Engagement

9. Reporting accountants should agree the terms of the engagement with those from whom they accept instructions. The whole of the terms of the engagement should be recorded in writing.

10. The engagement letter should specify those reports and letters which are intended for publication in the investment circular. The engagement letter should specify, in respect of each report and letter, to whom it is to be addressed.

11. If in the course of the engagement it becomes clear that the terms of the engagement need to be changed, such changes should be agreed and recorded in writing.

Quality Control

12. Reporting accountants should comply with the applicable standards and guidance set out in HKSQC 1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements". Although HKSAs do not apply to engagements covered by this HKSIR, they may nevertheless provide relevant guidance, and reporting accountants should also comply, to the extent relevant, with HKSA 220 "Quality Control for Audits of Historical Financial Information".

Planning and Performing the Engagement

13. Reporting accountants should develop and document a plan for their work so as to perform the engagement in an effective manner.

14. Additional basic principles, essential procedures and guidance on planning are set out in paragraphs 15 to 21.

15. Reporting accountants should obtain an understanding of the key factors affecting the subject matter sufficient to identify and assess the risk of the pro forma financial information not being properly compiled and sufficient to design and perform evidence gathering procedures including:

- **a. the nature of the transaction being undertaken by the issuer;**
- **b. the entity's business; and**
- **c. the procedures adopted, or planned to be adopted, by the directors of the issuer for the preparation of the pro forma financial information.**

16. Reporting accountants gain an understanding of the transaction in respect of which the pro forma financial information is being prepared by discussion with the directors or management of the issuer and by reading relevant supporting documentation.

17. Reporting accountants use professional judgement to determine the extent of the understanding required of the entity's business.

18. Other matters for consideration by reporting accountants include the availability of evidence to provide factual support for the proposed adjustments and the accounting policies that will form the basis of the adjustments for the pro forma financial information.

Materiality

19. Reporting accountants should consider materiality in planning their work in accordance with their instructions and in determining the effect of their findings on the report to be issued.

20. Matters are material if their omission or misstatement could, individually or collectively, influence the economic decisions of the intended users of the pro forma financial information. Materiality depends on the size or nature (or both) of the omission or misstatement judged in light of the surrounding circumstances.

21. A misstatement in the context of the compilation of pro forma financial information includes, for example:

a. use of an inappropriate source for the unadjusted financial information;

b. incorrect extraction of the unadjusted financial information from an appropriate source; and

c. in relation to adjustments, the misapplication of accounting policies.

Documentation

22. Working papers should record the reporting accountants' planning; the nature, timing and extent of the procedures performed; and the conclusions drawn.

23. Reporting accountants should document matters which are important in providing evidence to support their opinion and evidence that their work was carried out in accordance with this HKSIR.

Professional Scepticism

24. Reporting accountants should plan and perform an engagement with an attitude of professional scepticism.

Presentation of Pro Forma Financial Information under AG 7 and the Listing Rules/GEM Rules

25. Reporting accountants should assess whether the presentation adopted in the pro forma financial information is consistent with the recommended practice in AG 7 and the requirements of the Listing Rules/GEM Rules.

26. In particular, reporting accountants assess whether:

a. the pro forma financial information clearly states the purpose for which it has been prepared, that it has been prepared for illustrative purposes only and that because of its hypothetical nature, it may not give a true picture of the issuer's financial position or results; and

b. the pro forma financial information is presented in columnar form showing separately the unadjusted financial information, the pro forma adjustments and the pro forma financial information in accordance with AG 7 and Listing Rule 4.29(3)/GEM Rule 7.31(3).

27. Under AG 7 and Listing Rule 4.29(4)/GEM Rule 7.31(4), pro forma financial information is published in respect of:

    a. the current financial period;

    b. the most recently completed financial period; and/or

    c. the most recent interim period for which relevant unadjusted information has been or will be published or is being published in the same document,

    and, in the case of a pro forma balance sheet or net asset statement, as at the date on which such periods end or ended.

Evidence

28. Reporting accountants should obtain sufficient appropriate evidence on which to base their opinion on the pro forma financial information.

29. Reporting accountants gain an understanding of the transaction, in respect of which the pro forma financial information is being prepared, by discussions with the directors or management of the issuer and by reading relevant supporting documentation.

Unadjusted Financial Information

30. Reporting accountants should consider whether the source of the unadjusted financial information is one of those set out in AG 7 and Listing Rule 4.29(5)/GEM Rule 7.31(5) and assess whether the source of the unadjusted financial information is clearly stated.

31. Since AG 7 and the Listing Rules/GEM Rules set out the acceptable sources of unadjusted financial information, reporting accountants are not required to have audited or carried out a review on that information nor do reporting accountants have a responsibility to verify it.

32. If reporting accountants have reason to believe that the unadjusted financial information is, or may be, unreliable, such as if it is unaudited or if an accountants' or auditors' report thereon has identified any uncertainties or disagreements, reporting accountants should seek to ensure that appropriate disclosure is made. Where such disclosure is not made reporting accountants should consider the effect of this on their opinion.

33. Reporting accountants should check the extraction and, where relevant, summarisation of the unadjusted financial information from the source concerned.

Adjustments

34. Reporting accountants should report, among other things, that adjustments are appropriate for the purposes of the pro forma financial information.

35. AG 7 describes the appropriate adjustments to be made "of which the issuer is aware" and provides guidance for directors concerning such adjustments to be made by the directors pursuant to the Listing Rules.

36. Reporting accountants consider the way in which the directors have fulfilled their responsibilities. With their understanding of the transaction and the entity's business as background, reporting accountants discuss with the directors the steps the directors have taken to identify relevant adjustments and whether such adjustments are permitted.

37. If, as a result of these enquiries, reporting accountants are aware of a significant adjustment which, in their opinion, should be made for the purposes of the pro forma financial information, they should discuss the position with the directors of the issuer and, if appropriate, the issuers' advisers. If reporting accountants are not able to agree with the directors of the issuer as to how the matter should be resolved, they should consider the consequences for their opinion.

38. The nature of adjustments to be made is qualified by reference to the tests set out in AG 7 and Listing Rule 4.29(6)/GEM Rule 7.31(6), which are that any adjustments must be:

a. clearly shown and explained;

b. directly attributable to the transaction concerned and not relating to future events or decisions;

c. factually supportable; and

d. in respect of a pro forma profit or cash flow statement, clearly identified as to those adjustments which are expected to have a continuing effect on the issuer and those which are not.

39. Reporting accountants consider the adjustments to assess whether they are "directly attributable" to the transaction whose impact is being illustrated by the pro forma financial information, that is, that they are an integral part of the transaction concerned.

40. Reporting accountants assess whether adjustments "relate to future events and/or decisions". This condition would lead to the exclusion of adjustments that are related to the transaction being illustrated but which are dependent on actions to be taken once the transaction has been completed.

41. Reporting accountants consider whether the adjustments have been clearly shown and explained and, in respect of a pro forma profit or cash flow statement, whether they have been clearly identified as to those which are expected to have a continuing effect on the issuer (that is, relate to events or circumstances that are expected to recur) and to those which are not.

42. Reporting accountants obtain appropriate evidence that the directors of the issuer have factual support for each adjustment. Sources of such evidence would include audited financial statements, other financial information or valuations disclosed elsewhere in the investment circular, purchase and sale agreements and other agreements relating to the transaction. However, as noted in paragraph 2, the reporting accountants' work does not constitute an audit or review.

Consistent Accounting Policies

43. Directors of the issuer are responsible for ensuring that the pro forma financial information is prepared on a basis consistent with the accounting policies of the issuer.

44. Reporting accountants should assess and report whether the pro forma financial information has been compiled on a basis consistent with the accounting policies of the issuer.

45. Where reporting accountants are not the auditors of the issuer or have not prepared an accountants' report on the unadjusted financial information relating to the subject of the securities transaction, they make enquiries of the issuer as to the steps taken to ensure that the pro forma financial information has been prepared on a basis consistent with the accounting policies of the issuer. Guidance for the directors of the issuer with respect to the consistency of accounting policies is provided in AG 7.

Omitted Adjustments

46. In view of the nature of the adjustments that are made under AG 7 and Listing Rule 4.29(6)/GEM Rule 7.31(6), the directors of the issuer may not be permitted to make all the adjustments which they would otherwise wish to. For example, an adjustment which is directly attributable but which is not factually supportable could not be included in pro forma financial information.

47. If any adjustments are excluded because of AG 7 or Listing Rule 4.29(6)/GEM Rule 7.31(6), reporting accountants should consider the effect on the pro forma financial information and in particular whether the exclusion renders the pro forma financial information misleading.

48. In such circumstances, reporting accountants may consider that disclosure in the notes to the pro forma financial information of the fact that such an adjustment has not been made is sufficient in the context of the overall purpose of the pro forma financial information.

49. However, if reporting accountants conclude that an omitted adjustment is so fundamental as to render the pro forma statement misleading in the context of the purpose for which the pro forma financial information has been presented, they should discuss the matter with the directors of the issuer and, if appropriate, the issuer's advisers and consider the impact of this on their opinion.

Compilation

50. Reporting accountants should check whether the pro forma financial information is properly compiled from the source documentation, included under the appropriate financial statement captions and arithmetically accurate.

Representation Letter

51. Reporting accountants obtain from the directors of the issuer such representations as they consider appropriate. Examples of such representations might include an acknowledgement of the directors' responsibility for the pro forma financial information and the completeness of the adjustments. An example of management representation letter clauses covering matters dealt with in this HKSIR is set out in Appendix 2.

Reporting

52. In all reports on pro forma financial information in investment circulars, reporting accountants should:

a. include a title identifying the party or parties to whom the report is addressed;

b. identify the financial information to which their report relates;

c. address all matters that are required by the engagement letter;

d. explain the basis of their opinion;

e. give, where applicable, a clear expression of opinion;

f. where reporting accountants have been unable to complete their report or letter in accordance with their instructions, such as in the case of a limitation on the scope of their work, omission of a fundamental adjustment or where, in the reporting accountants' opinion, the issuer has not followed the guidance in AG 7 or the criteria in the Listing Rules/GEM Rules, describe the factors giving rise to the matter and consider consequences for their report or letter;

g. include their manuscript or printed signature; and

h. state the date of their report or letter.

53. The key aspects of the reporting accountants' report on pro forma financial information are further elaborated in paragraphs 54 to 66.

Statement of Responsibility

54. Reporting accountants should distinguish between their responsibilities and those of the directors of the issuer by including in their report:

a. a statement that the pro forma financial information is the responsibility of the directors; and

b. a statement that the reporting accountants' responsibility is to express an opinion on the pro forma financial information.

55. The reporting accountants' responsibility in relation to the opinion is limited to the provision of the accountants' report and the opinion expressed therein. Reporting accountants do not assume responsibility for the pro forma financial information nor, in so far as the accountants' report is concerned, any responsibility for the components of the pro forma financial information.

Basis of Opinion

56. Reporting accountants should include in the basis of opinion section of the accountants' report a statement that their work was conducted in accordance with this HKSIR.

Expression of Opinion

57. The reporting accountants' report should contain a clear expression of opinion on the pro forma financial information.

58. Under Listing Rule 4.29(7)/GEM 7.31(7), the pro forma financial information must be reported on by the reporting accountants who must report that, in their opinion:

a. the pro forma financial information has been properly compiled by the directors on the basis stated;

b. such basis is consistent with the accounting policies of the issuer; and

c. the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Listing Rule 4.29(1)/GEM Rule 7.31(1).

59. The first element of the opinion relates to the compilation of the pro forma financial information from the stated sources, and entails consideration of the accuracy of extraction of information from those sources and the arithmetical accuracy of the calculations in arriving at the pro forma financial information.

60. The second element relates to whether the adjustments have been measured and presented in the pro forma financial information in accordance with the accounting policies of the issuer.

61. The third element entails consideration of whether the adjustments made by the directors of the issuer in preparing the pro forma financial information satisfy the requirements of the Listing Rules/GEM Rules and guidance in AG 7.

62. In providing their opinion, reporting accountants are not providing any assurance in relation to any source financial information on which the pro forma financial information is based. In particular, reporting accountants are not re-addressing or updating any opinion that they may have given in any other capacity on any source financial information.

Date of Accountants' Report

63. The accountants' report is normally dated on the same date as the investment circular in which it is included or to which it relates.

Modified Report

64. In rare circumstances where the reporting accountants conclude that they are unable to report in the manner prescribed in paragraph 58 above they should consider modifying their opinion accordingly.

65. If the reporting accountants are likely to express a modified opinion, they are recommended to discuss with the issuer and, where appropriate, the issuer's advisers whether the pro forma financial information should be omitted from the investment circular subject to the requirements of the Listing Rules/GEM Rules and also, subject to the issuer's consent, consider consulting with the Stock Exchange in advance.

Example Accountants' Report

66. An example accountants' report on pro forma financial information for inclusion in investment circulars expressing an unmodified opinion is set out in Appendix 1.

Consent

67. Where reporting accountants are to give consent to the inclusion of their report, or references to their name, in an investment circular they should, before doing so, consider their report in the form and context in which it appears, or is referred to, in the investment circular as a whole by:

a. comparing their report together with the information being reporting on with the information in the rest of the investment circular and assessing whether they have any cause to believe that they are inconsistent; and

b. assessing whether they have any cause to believe any information in the investment circular could be misleading.

When reporting accountants believe that information in the investment circular is either inconsistent with their report, together with the information being reported on, or misleading, or the criteria set out in AG 7 and the Listing Rules/GEM Rules have not been applied in the preparation of the pro forma financial information, they should withhold their consent until they are satisfied that their concerns are unwarranted or until the investment circular has been appropriately amended.

Subsequent Events

68. After the date of their report, reporting accountants have no obligation to perform procedures or make enquiries regarding the pro forma financial information or investment circular. If reporting accountants become aware of any subsequent events that may have material impact on the pro forma financial information after the date of their report, they should refer to the requirements in HKSA 560 "Subsequent Events" for appropriate action to be taken.

Effective Date

69. This HKSIR is effective for engagements where the investment circular is dated on or after 1 April 2006. Earlier application is encouraged.

Appendix 1 – Example Accountants' Report on Pro Forma Financial Information in Investment Circulars

ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF XYZ LIMITED

We report on the unaudited pro forma financial information of XYZ Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the [*insert brief description of the transaction,* e.g. "proposed placing and public offer" or "proposed acquisition of DEF Limited"] might have affected the financial information presented, for inclusion as Appendix [ ] to the Investment Circular of XYZ Limited dated [ ]. The basis of preparation of the pro forma financial information is set out on page [ ] to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with [paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")/paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules")][2] and with reference to AG 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by [paragraph 4.29(7) of the Listing Rules/ paragraph 7.31(7) of the GEM Rules][2], on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to [paragraph 4.29(1) of the Listing Rules/paragraph 7.31 (1) of the GEM Rules][2].

[Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.][1]

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at [date covered by the pro forma financial information] or any future date; or

- the [earnings per share/results] of the Group for [period(s) covered by the pro forma financial information] or any future periods.

Opinion

In our opinion:

a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to [paragraph 4.29(1) of the Listing Rules/paragraph 7.31 (1) of the GEM Rules][2].

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Notes

1. Insert where applicable.

2. Delete as appropriate.

Appendix 2 – Examples of Management Representation Letter Clauses

The following are examples of management representation letter clauses relating to a report on pro forma financial information which may be obtained from the issuer.

- We acknowledge that we are responsible for the pro forma financial information which has been prepared in accordance with the Listing Rules/GEM Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants.

- We confirm that, in our opinion, the pro forma financial information, which includes pro forma [net tangible assets as at [ ], balance sheet as at [ ], profit and loss account for the year ended [ ], cash flow statement for the year ended [ ] and earnings per share for the year ended [ ]], provides investors with information about the impact of the transaction by illustrating how that transaction might have affected the financial information presented in the Prospectus had the transaction been undertaken at the commencement of the period being reported on or, in the case of the pro forma balance sheet or net asset statement at the date reported on. Furthermore, we confirm that, in our opinion, the pro forma financial information is not misleading.

- We confirm that, in our opinion, the pro forma financial information includes all appropriate adjustments permitted by Listing Rules 4.29(6)/GEM Rule 7.31(6) of which we are aware, necessary to give effect to the transaction as if the transaction had been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported on.

- We confirm that the pro forma financial information has been properly compiled on the basis stated in Appendix [ ] of the Prospectus and such basis is consistent with the accounting policies of the Company.

- [*any other specific representations relating to the pro forma financial information*]

Best Practice Guidance on Presenting Pro Forma Financial Information
(Draft version dated 30 June 2010)

Introduction

1. The purpose of this Guidance is to highlight the principles in applying the current Hong Kong Listing Rules ("the Listing Rules") on pro forma financial information and to provide guidance on how to present pro forma financial information under different scenarios. Pro forma financial information is financial information prepared showing the impact of a transaction which is the subject matter of the document or circular.

2. Under the Listing Rules, the presentation of pro forma financial information is required in certain prescribed circumstances such as a major transaction and very substantial acquisitions and disposals. The prescriptive nature of the Listing Rules was made to promote consistency and to ensure that pro forma adjustments were restricted to those that were directly attributable to the transaction in question and the subject matter of the circular/ listing document. The table below lists out the Main Board Listing Rules ("MBLR") and Growth Enterprise Market Listing Rules ("GEMLR") regarding pro forma financial information that are discussed in this Guidance.

Main Board Listing Rules	Growth Enterprise Market Listing Rules	Coverage of Rule
MBLR 4.25	GEMLR 7.27	Major Transactions
MBLR 4.26	GEMLR 7.28	Reverse Takeover/ Very Substantial Acquisitions
MBLR 4.27	GEMLR 7.29	Very Substantial Disposals
MBLR 4.28	GEMLR 7.30	Initial Public Offering – acquisitions or proposed acquisitions of major subsidiaries between the last audited balance sheet and the listing date
MBLR 4.29	GEMLR 7.31	Rules on presenting Pro Forma Financial Information
MBLR Appendix 1A (21)	GEMLR Appendix 1A (21)	Statement of net tangible assets for new listings

Appendix A sets out the types of pro forma financial information required under different circumstances. **Appendix B** and **Appendix C** include the full text of the current rules.

3. The current Listing Rules on pro forma financial information were primarily developed in 2004 from listing rules issued in the UK by the United Kingdom Listing Authority. However, there have been changes to the UK listing rules and these are being studied to determine whether changes should be made in Hong Kong. Any significant changes to the Listing Rules will require market consultation and in the meantime, it would be useful to provide guidance to listed issuers/ listing applicants on how to apply the existing rules.

4. The intention of the Listing Rules is to ensure that useful information is presented to help shareholders or readers in making a decision on whether a proposed transaction should be made. Listed issuers/ listing applicants are therefore reminded to critically assess the information presented and where the information to be presented appears misleading or not meaningful, to seek the Exchange's advice on how the information could be best presented. Listing Rule 2.04 states that –

"The Exchange may waive, modify or not require compliance with the Exchange Listing Rules in individual cases (to suit the circumstances of a particular case), as a variety of circumstances may exist which require it to make ad hoc decisions."

5. However, prior to consulting the Exchange, listed issuers/ listing applicants are expected to consult their professional advisers and refer to relevant guidance including Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This guidance on best practice supplements the guidance provided in AG 7.

Principles

6. The intention of the Listing Rules regarding pro forma financial information is to set out a regulatory framework on when and how listed issuers/ listing applicants should present pro forma financial information as required under the Listing Rules or where the information is presented voluntarily.

7. Pro forma financial information is not prepared on the basis that a transaction has actually happened, rather, it just provides information based on an "as if" scenario. It merely represents a snap shot of the financial position or performance statement of a listed issuer/ listing applicant for a particular point in time or period which is then adjusted to incorporate a specific transaction which is the subject matter of the circular/listing document (e.g. a decision to buy or sell a major asset). The adjusted information which incorporates the transaction and related adjustments represents the resulting pro forma financial information.

8. The pro forma financial information cannot and does not purport to represent the most updated financial performance or financial position of the listed issuer/ listing applicant as other transactions or developments that have occurred are ignored.

9. Since pro forma financial information merely illustrates how the single subject transaction might have affected the financial performance or financial position of the listed issuer/ listing applicant and ignores other transactions and events, it is hypothetical in nature and should be prepared with a restrictive use in mind.

10. The presentation of pro forma financial information contains three key elements: -

    (a) the starting point
    (b) the transaction which is the subject matter of the circular/ listing document, and
    (c) the adjusted information.

<u>The starting point - Source of unadjusted information</u>

11. In presenting pro forma financial information, a listed issuer/ listing applicant must elect a starting point and a question that frequently arises is how to interpret MBLR 4.29 (4) [GEMLR 7.31 (4)] and whether the period end chosen for presenting a pro forma balance sheet or net asset statement (or pro forma assets and liabilities statement in the case of a circular) can be different from the period chosen for presenting a related pro forma income statement and pro forma cash flow statement. The answer to this question is yes: the periods chosen can be different.

12. This interpretation takes the view that a listed issuer/ listing applicant is free to choose any accounting reference point or period (within those allowed under MBLR 4.29 (4) and (5) [GEMLR 7.31 (4) and (5)]). Although there is no required linking of the pro forma income statement or pro forma cash flow statement period end date to the period end date used for the pro forma balance sheet, pro forma assets and liabilities statement or net asset statement, it is normally preferable that the period end dates are the same. The use of different dates however could be justified in certain circumstances, for example, where a company wishes to reflect the impact of the transaction on a full year's results because of the seasonality of its sales, it may present a pro forma income statement for the year to 31 December 20XX, yet provide a more up-to-date picture of the impact of the transaction on the balance sheet and therefore a pro forma balance sheet is prepared at 30 June 20XY rather than as at 31 December 20XX.

<u>The transaction - Pro forma adjustments</u>

13. Pro forma adjustments should be restricted to those directly attributable to the transaction. Adjustments which are dependent on actions to be taken once the transaction has been completed should not be included. For example, where the subject matter of the circular is the proposed acquisition of Company A, the assets and liabilities to be acquired as a result of the acquisition would constitute the pro forma adjustment. The assets and liabilities related to another separate unrelated transaction, such as the acquisition of Company B, should not be included. Moreover, restructuring costs, new management compensation packages and new contractual arrangements are normally not pro forma adjustment items. Reference can also be made to paragraph 47 of AG 7 which provides further guidance on what would be regarded as "attributable to the transaction".

The adjusted information – The pro forma financial information

14. The adjusted or pro forma financial information is simply the aggregation of the amounts shown as the starting point together with the amounts arising from the transaction and related adjustments. There however may be circumstances where the simple aggregation may be regarded as insufficient and possibly misleading and, where this is the case, additional explanatory notes may be necessary. For example, the proposed acquisition in August 20XY by a listed issuer/ listing applicant of a new subsidiary company may have been based on the latest audited financial statements of the target as at 31 December 20XX and these financial statements were used to determine the goodwill arising from the acquisition. If there are significant changes to the net assets of the target subsequent to 31 December 20XX, a supplementary note may be needed to explain this. The note should also explain that the ultimate goodwill to be recognised may differ from that shown in the pro forma financial information and will ultimately depend on the fair value of the assets and liabilities of the target at the date of the acquisition and the consideration to be paid to the vendor. A listed issuer/ listing applicant should issue a separate announcement pursuant to MBLR 13.09 [GEMLR 17.10] when information is available regarding a significant change to the adjusted net tangible assets.

Presenting pro forma financial information

15. The above provides an outline of the general overall principles in preparing pro forma financial information. Described in paragraphs 16 to 41 below is supplementary guidance on specific issues that may arise when presenting pro forma financial information. Additional guidance is also available in AG 7.

(I) IPO-related issues

(a) Group restructuring and impact on determining net tangible assets per share

16. Appendix 1A (21) requires a prospectus to include: -

"A statement of the net tangible asset backing of each class of security for which listing is sought, after making allowance for any new securities to be issued, as detailed in the listing document."

In an initial public offering, it is common to see a group restructuring before the listing. Where a group restructuring is completed before the end of the track record period and stub period, the financial information presented in the reporting accountants' report would have already reflected the group restructuring and the net tangible assets per share disclosure made pursuant to paragraph 21 of Appendix 1A of the Main Board Rules [GEM Appendix 1A (21)] would be straightforward.

17. In practice, financial information is frequently prepared "as if" the group restructuring has been completed at the commencement of the track record period to show "combined" information. The financial information would not include the shares to be issued by the holding company as it has not yet been formed. In these cases, the group's legal restructuring (that is, the exchange of shares between the new listed entity and its subsidiaries which normally hold the underlying assets or businesses to be listed) has not been completed before the end of the track record and stub period. Sometimes, there may be investments from pre-IPO investors. Where these are material but are not directly attributable to the IPO transaction, listing applicants are encouraged to include disclosure of these as a note to the pro forma financial information. Below is an example illustrating how to calculate pro forma net tangible assets per share in the case of a group restructuring which is an integral part of an IPO.

Example

Background

After the track record and stub period, the listing applicant issues 100 shares to Company A in exchange for all operating companies previously held by Company A being the businesses transferred to the listing applicant. The listing applicant issues 300 new shares by capitalisation of reserves of $300. Net tangible assets stated in the accountant's report of the businesses to be transferred are $2,000 and the net proceeds from the IPO are $1,000. The listing applicant also issues 200 shares to pre-IPO institutional investors for their $400 cash investment after the track record and stub period but before the listing date. There are 100 shares outstanding in the listing applicant prior to the capitalisation of reserves into 300 shares and the issue of 100 new shares to acquire Company A, and a further 500 new shares will be issued in the public offering.

Calculation

$$\text{Pro forma NTA per share} = \frac{\text{NTA per the accountant's report} + \text{Net offering proceeds on IPO}}{\text{Shares outstanding (original no. of shares + shares issued pursuant to capitalisation of reserves + no. of shares issued pursuant to the group restructuring + offering shares)}}$$

$$= (\$2{,}000 + \$1{,}000) / (100 + 300 + 100 + 500 \text{ shares})$$

$$= \$3$$

The net offering proceeds on the IPO together with the shares issued pursuant to the group restructuring (i.e. issuance of 100 shares to Company A and issuance of 300 shares to existing shareholders by capitalization of reserves) and offering shares should be taken into account when calculating the pro forma NTA per share since they all are an integral part of the IPO transaction. However, the $400 investment from pre-IPO investors in the listing applicant after the track record period and the 200 shares issued to the pre-IPO investors should not be taken into account as they are not an integral part of the IPO. Information regarding the investment from pre-IPO investors where material should be disclosed in the notes to the pro forma financial information.

(b) Convertible bonds or warrants and impact on net tangible assets per share

18. The effect of share issues relating to convertible bonds or warrants should not normally be adjusted in calculating pro forma net tangible assets as they do not form an integral part of a group restructuring for an IPO. Rather the conversions or the exercise of warrants represent future transactions. This is true even if the conversions take place after the track record period but before listing as the conversion is a separate transaction. Nevertheless, where the listed issuer/ listing applicant is able to demonstrate that conversion of convertible bonds or warrants after the track record and stub period are directly attributable to the IPO, such as mandatory conversion upon IPO, they would be taken into account in the calculation of pro forma net tangible assets.

(c) Dividends and impact on net tangible assets per share

19. In presenting a pro forma net tangible assets statement, a pro forma adjustment for dividends declared and paid after the track record and stub period should only be made if the dividend is an integral part of the group restructuring for an IPO (e.g. the restructuring is made solely for the purpose of the IPO and there is a regulatory requirement to pay a dividend out of the balance of retained earnings prior to the listing). However, other dividends which are made at management's discretion should not normally be treated as a pro forma adjustment. To ensure the information presented is not misleading, the subsequent unadjusted event should be disclosed in a note to the pro forma financial information, if it is material.

(d) Capitalisation of a shareholders' loan and impact on net tangible assets per share

20. The effect of a capitalisation of a shareholders' loan should not be adjusted in a pro forma net tangible assets statement if it is not an integral part of a group restructuring for an IPO unless the listed issuer/ listing applicant is able to demonstrate that it is directly attributable to the IPO.

(e) Interest income on offering proceeds and impact on net tangible assets per share

21. It is inappropriate to make a pro forma adjustment to net tangible assets to reflect expected interest income relating to the proposed offering proceeds since this would represent a notional adjustment and the listing applicant's management has discretion on how it uses its cash balances from the IPO. Depositing IPO proceeds to earn interest does not relate to the IPO transaction itself but represents a future transaction.

(f) Other major acquisitions subsequent to the track record and stub period and impact on net tangible assets per share

22. A listing applicant should comply with paragraph 21 of Appendix 1A of the Main Board Rules [GEMLR Appendix 1A (21)] and MBLR 4.28 [GEMLR 7.30] separately as they are two separate requirements. In respect of the pro forma net tangible assets statement, pro forma adjustments should not normally be made regarding a company or a business acquired subsequent to the track record and stub period where the acquisition is not part of a group restructuring for the IPO.

23. However, pro forma financial information on the enlarged group is required to be presented where the acquired company/business falls under MBLR 4.28 [GEMLR 7.30], that is, where the new listing applicant acquires or proposes to acquire a major subsidiary after the track record and stub period but before the date of listing. In these circumstances, as a net tangible assets statement based on the latest assets after the acquisition of the major subsidiary would be relevant to prospective investors to the IPO, rather than preparing two net tangible asset statements, as a means to simplify presentation and to avoid confusion to investors, the net tangible assets statement should be prepared by using as the starting point the pro forma information of the enlarged group required under MBLR 4.28 [GEMLR 7.30] with the adjustment column being the IPO proceeds. As such information is not based on audited information but rather pro forma information, this fact should be clearly stated.

(g) Earnings per share (EPS)

24. Currently, there are many types of pro forma EPS information disclosed in prospectuses and some include: -

<u>Type</u>	
A	Pro forma basic historical EPS
B	Pro forma basic forecast EPS
C	Pro forma fully diluted historical EPS
D	Pro forma fully diluted forecast EPS

25. The calculations of basic historical EPS and diluted historical EPS are governed by HKAS 33 Earnings per Share ("HKAS 33"). Where the historical information is prepared on a combined basis (e.g. a business combination under common control) and where shares in the listing applicant itself have yet to be issued for a group restructuring such disclosures would normally not be meaningful.

26. Regarding Types A and B which deal with pro forma basic EPS figures reference should be made to AG 7 (70) which states that: -

*"where pro forma earnings per share information is given for a transaction which includes the issue of securities, the calculation is based on the weighted average number of shares outstanding during the period, **<u>adjusted</u>** as if **<u>that issue</u>** had taken place at **<u>the beginning of the period</u>**".*

27. An appropriate interpretation of the calculation of pro forma EPS following the guidance under AG 7 requires consideration of the following:

(a) The original number of shares outstanding during the period, which is not related to the IPO transaction, is calculated according to HKAS 33 and this requires the <u>weighted average</u> number of shares to be used.

(b) For the shares issued in relation to the IPO transaction, under AG 7, they are presumed to have been issued "as if" they were issued at the <u>beginning</u> of the financial period.

28. The presentation of Type A may be meaningful depending on the circumstances, but is likely to be of limited value to readers of a prospectus as the IPO transaction will happen <u>after the end</u> of the track record period <u>rather than at the beginning</u> of the track record period which is the assumption prescribed under the pro forma rules.

29. Although MBLR 4.29 (5)(d) [GEMLR 7.31 (5)(d)] allows the use of published forecasts as a starting point in preparing pro forma financial information, the presentation of Type B may not be meaningful. The pro forma rules, MBLR 4.29 (8) [GEMLR 7.31 (8)] require that where pro forma EPS information is given, the IPO transaction should be treated as if the issue took place at the <u>beginning</u> of the forecast period reported on.

30. Type C should not normally be presented since the shares to be issued in an IPO are taken into account as if they were issued at the <u>beginning</u> of the financial year. This is inconsistent with the meaning of dilution under HKAS 33 which is calculated using the weighted average number of ordinary shares issued plus the average <u>weighted number</u> of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares.

31. Type D also should not normally be presented since there is no history of reliable "average market prices" to enable the calculation of the "fully diluted" EPS in pro forma financial information. HKAS 33 (A4) states that "For the purpose of calculating diluted earnings per share, the <u>average market price</u> of ordinary shares assumed to be issued is calculated on the basis of the average market price of the ordinary shares <u>during the period</u>". However, the market price in the case of an IPO is only available after completion of the IPO. Moreover, the "average market price" requires the existence of a fixed period over which the prices relate and in the case of an IPO applicant, there is no history of the market price for the shares. If Type D is included, which may be relevant where a profit forecast is included, full details of basis of calculation should be disclosed.

Example

The example below illustrates the principles explained in paragraphs 26 to 31 above.

Background

Historical combined profit – year ended 31 December 20XX	$100
Number of issued shares of the listing applicant as at 1 January 20XX and 31 December 20XX	30 shares
Number of issued shares of the listing applicant as at 31 March 20XY (including 35 shares issued on 1 February 20XY pursuant to the group restructuring and assuming no other movement during the period from 1 January 20XX to 31 March 20XY). The listing applicant company issues 35 shares in February 20XY to acquire the relevant businesses from the current controlling shareholders of the businesses. The group is accounted for based on merger accounting as at 1 January 20XY.	65 shares
Offering shares issued on 1 April 20XY	25 shares
Forecast profit – year ended 31 December 20XY	$200

Pro forma basic historical EPS (Type A)

Guidance on the calculation is provided in AG 7 and is computed as follows:
= Historical profit/ (weighted average number of shares outstanding during 20XX plus both the shares issued pursuant to the group restructuring and the offering shares "**assuming**" they were issued on 1 January 20XX, that is, the beginning of the period reported on)
=$100/ (30+35+25)
=$1.11

If a Type A is computed, it should only be disclosed if it is useful and meaningful (see paragraph 28 above).

Pro forma basic forecast EPS (Type B)

Guidance on the calculation is covered by AG 7 and is computed as follows:
= Forecast profit/ (weighted average number of shares outstanding prior to the group restructuring plus both the shares issued pursuant to the group restructuring and the offering shares "**assuming**" the shares were issued on 1 January 20XY,that is, the beginning of the period reported on)
=$200/ (30+35+25)
=$2.22

If a Type B is computed, it should only be disclosed if it is useful and meaningful (see paragraph 29 above).

Summary and Conclusion

Types A and B, namely, pro forma basic historical EPS and pro forma basic forecast EPS of the listing applicant, may be presented if the information is regarded as useful and meaningful. Type C should not normally be presented and Type D should only be presented when a profit forecast is included.

(II) Transaction-related issues

32. Below is guidance on transaction related issues which may arise in applying MBLR 4.25 to 4.27 [GEMLR 7.27 to 7.29] that deal with major transactions and very substantial acquisitions and disposals. Some of the guidance may also be applicable and relevant to an IPO transaction.

(a) Acquisition transaction - Goodwill and Negative Goodwill

33. Where a listed issuer/ listing applicant proposes to acquire a major subsidiary, say in July 20XY, a listed issuer/ listing applicant will select as the starting point for its pro forma statement the latest available published information concerning the company, for example, its latest audited balance sheet for the year ended 31 December 20XX. It will then include the target subsidiary as the pro forma adjustment, the latest available audited balance sheet of the target which preferably should be at the same date, that is, 31 December 20XX.

34. By using the 31 December 20XX balance sheet of the target it is implicitly recognised that the resulting goodwill on consolidation will be subject to adjustment. This is inevitable as pro forma financial information just reflects a snap shot of the listed issuer/ listing applicant and the target at a specific point in time. Any subsequent change in goodwill after 31 December 20XX will arise due to changes such as the fair value of the net assets of the target and adjustments to the consideration payable but this is not taken into account in arriving at the pro forma financial information of the enlarged group. A note to the pro forma financial information should clearly explain that goodwill on consolidation would change depending on the fair value of net assets of the target determined at the actual acquisition date. The acquisition agreements may provide for a variation in the consideration amount payable on the acquisition to take into account changes in the net assets of the target. A listed issuer/ listing applicant should issue a separate announcement pursuant to MBLR 13.09 [GEMLR 17.10] when information is available regarding a significant change in the adjusted net tangible assets.

(b) Acquisition transaction – Financial information of the Target

35. It is sometimes possible that the target's financial year end is different from the acquirer group. Although coterminous period ends is preferable, it is not a must that the pro forma financial information is prepared based on coterminous period ends. Where the dates of the information used are not coterminous the reasons should be disclosed so that the information presented is not misleading.

(c) Acquisition/ Disposal transaction – Inter-company balances and transactions elimination

36. There is no specific guidance in AG 7 regarding elimination of inter-company balances between the listed issuer/ listing applicant and the target but these should be made. Where the target information presented is based on a date that is not coterminous with the listed issuer/ listing applicant, this should be disclosed as it is likely that the inter-company balances will not be the same and will relate to different transactions. In presenting the information on the enlarged group, elimination of inter-company balances should be made but only if the inter-company balances can be totally offset. This would normally be possible where the accounting periods are coterminous. Where the accounting periods are not coterminous, inter-company balances should be disclosed by way of note disclosure together with the reasons why they remain. The same principles above apply in respect of disposals that result in a smaller group.

37. Similarly, where a pro forma income statement is presented and the inter-company transactions cannot be eliminated because of the non-coterminous year ends, the same principles as set out in paragraph 36 above should be applied.

(d) Disposal transaction - Subsequent change in net asset value of subsidiaries

38. Similar to the principle in determining goodwill mentioned in paragraphs 33 and 34 above, any movement in the net asset value of the subsidiary subsequent to the date of the information chosen and presented concerning the subsidiary is not taken into account. The calculation of the estimated gain or loss on disposal is based on the date of the pro forma financial information and further note disclosures should be made indicating that the amount may vary depending on changes in net assets up to the date of the disposal. If the amount can be quantified, this should be disclosed.

(e) Starting point based on a previously published circular

39. Although it is preferable to use audited financial statements as the starting point for preparing pro forma financial information as such information should be more reliable, pro forma financial information which has been published after the audited financial statements may also be used. Such information is allowed under MBLR 4.29 (5)(c) [GEMLR 7.31 (5)(c)].

(f) Subsequent events apart from those meeting the adjustment criteria

40. Generally no adjustments should be made in respect of subsequent events apart from those which meet the adjustment criteria as set out in MBLR 4.29(6) [GEMLR 7.31(6)]. That is, the adjustments made should only be attributable and relate to the transaction that is the subject matter of the circular. A question then arises, if in preparing a circular for a disposal transaction, how should the pro forma financial information be presented where the latest unadjusted information allowed to be used as the starting point does not include the relevant assets being disposed of. The following example illustrates how the pro forma financial information should be presented.

Example

<u>Background</u>

There is a proposed major disposal of 5 fixed assets in June 20XY for HK$7.5 million but 2 of these assets were only acquired for HK$2 million in April 20XY. The latest unadjusted information allowed under MBLR 4.29(5) [GEMLR 7.31(5)] is the audited financial statements to 31 December 20XX. How should the pro forma financial information be presented?

<u>Calculation</u>

Calculation: Method A

		Pro forma adjustments		
	31 Dec. 20XX	Note 1	Note 2	Pro forma adjusted information
	HK$m	HK$m	HK$m	HK$m
Assets:				
Cash	-	-	7.5	7.5
Fixed assets	3	-	-3	0
Total assets	3	-	4.5	7.5
Equity	3	-	4.5	7.5
Note 1:				
The acquisition of the two assets in April 20XY is <u>not</u> taken into account.				
Note 2:				
The disposal of 3 assets is adjusted and the gain is calculated based on the consideration received on the sale of the 5 assets and the cost of 3 assets sold. A note to the pro forma financial information should be provided to explain that the acquisition of the two assets in April 20XY is not taken into account.				

Calculation: Method B

		Pro forma adjustments		
	31 Dec. 20XX	Note 1	Note 2	Pro forma adjusted information
	HK$m	HK$m	HK$m	HK$m
Assets:				
Cash	-	-2	7.5	5.5
Fixed assets	3	2	-5	0
Total assets	3	-	2.5	5.5
Equity	3	-	2.5	5.5
Note 1:				
The acquisition of the two assets in April 20XY is taken into account.				
Note 2:				
The disposal of 5 assets is adjusted and the gain is calculated based on the consideration received on the sale of the 5 assets and the cost of 5 assets sold.				

<u>Analysis</u>

Generally, the principle is that no adjustments are made in respect of subsequent events apart from those which meet the adjustment criteria. However, listed issuers/ listing applicants should also be aware of the guidance included in AG 7 (69) which states: -

"Issuers may wish to make adjustments to reflect other transactions which have taken place since the latest balance sheet date but which are not the subject of the investment circular within which the pro forma financial information is presented. As explained in paragraph 36, as a matter of general principle, issuers do not make adjustments for such transactions. Nevertheless, in rare circumstances, adjustments for other transactions or issues of capital that have led to announcements or circulars under the Listing Rules/GEM Rules may be permitted where this is necessary to ensure that pro forma financial information is not misleading. The requirement that the resulting pro forma financial information is not misleading precludes cherry-picking transactions for which adjustments are made."

The guidance indicates that where this is applicable will be rare. Nevertheless, this example would be such a rare circumstance where AG 7 (69) applies and where adoption of Method B would be appropriate and Method A would be misleading.

If the 2 assets acquired in April 20XY were subject to a separate circular, the pro forma information included in the separate circular can be used as a starting point (See paragraph 39 above). However if a separate circular was not issued, it is likely that the acquisition transaction did not meet the threshold warranting the issue of a circular.

(g) Rights Issue

41. In a rights issue circular, shares issued after the balance sheet date that are not related to the rights issue should not be adjusted in calculating pro forma net tangible assets. However, the additional shares issued should be disclosed in the notes to the pro forma financial information to make the pro forma financial information more meaningful and useful. The following example indicates how the net tangible assets per share figure should be calculated.

Example

Background

The Company proposes to use the audited net assets as at 31 December 20XX as the unadjusted financial information starting point to illustrate the impact of the rights issue to be made in June 20XY on the Company's net tangible assets. There has been an additional issue of 20 shares on 1 May 20XY.

	31 Dec. 20XX	Issued shares on 1 May 20XY	30 May 20XY	1 Jun.20XY Rights Issue 1:2
Number of shares	100	20	120	60
Amount	$100	$30	$130	0

Note
Each share has par value of $1.
The net tangible assets as at 31 December 20XX were HK$100.

Calculation

Pro forma NTA = NTA at 31 December 20XX + Net proceeds from the rights issue
= $100 + $60
= $160

$$\text{Pro forma NTA per share} = \frac{\text{Pro forma NTA}}{\text{Shares outstanding as at 31 Dec. 20XX + Rights Issue shares}}$$

= $160/ (100 + 60)
= $1 per share

The post 31 December 20XX movements in share capital, namely, the 20 shares issued on 1 May 20XY, are not taken into account since they are not directly attributable to the rights issue in 1 June 20XY which is the subject matter of the circular.

The general principle is that no adjustments are made in respect of subsequent events apart from those which meet the adjustment criteria. To ensure the information presented is not misleading, the subsequent event of the issue of 20 shares on 1 May 20XY should be disclosed in a note to the pro forma financial information together with an explanation that the number of Rights Issue shares will be subject to the actual shares issued on the effective date.

Summary

42. In summary, the current Listing Rules are intentionally prescriptive to promote consistency in treatment. This may sometimes result in the presentation of pro forma financial information that may appear counter intuitive or incomplete. If presenting pro forma financial information in accordance with the rules results in misleading or non-meaningful information, listed issuers/ listing applicants are expected to seek professional advice and propose a reasonable alternative for the Exchange to consider. Pro forma financial information presented should, where appropriate, include explanatory supplementary notes together with available quantitative data to explain the amounts shown. The key objective is that the pro forma financial information shows the impact of the relevant transaction and that the information is useful to assist investors to decide on whether or not to proceed with an investment decision.

APPENDIX A

Summary of when and what pro forma financial information is required to be presented

Relevant Rules		**Requirements**	
Main Board Listing Rules (MBLR) **(Appendix B)**	Growth Enterprise Market Listing Rules (GEMLR) **(Appendix C)**	When the target is any **business/ company** or companies	When the target is any **revenue-generating asset** (other than a business or a company) with an identifiable income stream or assets valuation
MBLR 4.25 Major transaction	GEMLR 7.27 Major transaction	Pro forma statement of assets and liabilities of the enlarged group ((6)(a)(ii) of MBLR 14.67 or GEMLR 19.67)	Pro forma statement of assets and liabilities of the enlarged group ((6)(b)(ii) of MBLR 14.67 or GEMLR 19.67)
MBLR 4.26 Reverse takeover/ Very substantial acquisition	GEMLR 7.28 Reverse takeover/ Very substantial acquisition	Pro forma income statement, balance sheet and cash flow statement of the enlarged group ((4)(a)(ii) of MBLR 14.69 or GEMLR 19.69)	Pro forma profit and loss statement and net assets statement on the enlarged group ((4)(b)(ii) of MBLR 14.69 or GEMLR 19.69)
MBLR 4.27 Very substantial disposal	GEMLR 7.29 Very substantial disposal	Pro forma income statement, balance sheet and cash flow statement of the remaining group ((2)(a)(ii) of MBLR 14.68 or GEMLR 19.68)	Pro forma profit and loss statement and net assets statement on the remaining group ((2)(b)(ii) of MBLR 14.68 or GEMLR 19.68)
MBLR 4.28 Initial public offering– **acquisitions** or proposed acquisitions of major subsidiaries between the audited stub period and the listing date	GEMLR 7.30 Initial public offering– **acquisitions** or proposed acquisitions of major subsidiaries between the audited stub period and the listing date	Pro forma financial information of the enlarged group required under MBLR 4.29	

APPENDIX B

Extracts of Main Board Listing Rules Requirements concerning presentation of Pro Forma Financial Information

Chapter 4

4.25 In the cases referred to in rule 4.01(3) concerning a circular in connection with a major transaction, the pro forma financial information required under rules 14.67(6)(a)(ii) or 14.67(6)(b)(ii) on the enlarged group (i.e. the issuer, its subsidiaries and any business or subsidiary or, where applicable, assets acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up (including but not limited to any business, company or companies being acquired)) must include all the information referred to in rule 4.29 in respect of such enlarged group.

4.26 In the cases referred to in rule 4.01(3) concerning a circular in connection with a reverse takeover or a very substantial acquisition, the pro forma financial information required under rules 14.69(4)(a)(ii) or 14.69(4)(b)(ii) on the enlarged group (i.e. the issuer, its subsidiaries and any business or subsidiary or, where applicable, assets acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up (including but not limited to any business, company or companies being acquired)) must include all the information referred to in rule 4.29 in respect of such enlarged group.

4.27 For a circular in connection with a very substantial disposal, the pro forma financial information required under rules 14.68(2)(a)(ii) or 14.68(2)(b)(ii) on the remaining group must include the information referred to in rule 4.29 in respect of the remaining group.

4.28 In the case of a new applicant (rule 4.01(1)) which has acquired or proposed to acquire any businesses or companies, which would at the date of application or such later date of acquisition before listing of the applicant be classified as a major subsidiary, since the date to which the latest audited accounts of the issuer have been made up, it must include in its listing document the pro forma financial information required under rule 4.29 in respect of the enlarged group (i.e. the new applicant, its subsidiaries and any businesses or companies acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up).

Note: For purposes of rule 4.28, all acquisitions or proposed acquisitions since the date to which the latest audited accounts in the accountants' report of the issuer have been made up, whether of businesses or companies, should be aggregated. If the aggregated total assets, profits or revenue represents 5% or more under any of the percentage ratios as defined under rule 14.04(9), these acquisitions will be deemed to be an acquisition of a major subsidiary for the purpose of rule 4.28. 100% of the major subsidiary's total assets, profits or revenue (as the case may be) or, where the major subsidiary itself has subsidiaries, the consolidated total assets, profits or revenue (as the case may be) of the major subsidiary is to be *compared to the total assets, profits or revenue (as the case may be) shown in the issuer's latest audited consolidated financial statements in the accountants' report irrespective of the interest held in the major subsidiary.*

4.29 Where an issuer includes pro forma financial information in any document (whether or not such disclosure of pro forma financial information is required under the Exchange Listing Rules), that information must comply with rules 4.29(1) to (6) and a report in the terms of rule 4.29(7) must be included in the relevant document.

(1) The pro forma financial information must provide investors with information about the impact of the transaction the subject of the document by illustrating how that transaction might have affected the financial information presented in the document, had the transaction been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported. The pro forma financial information presented must not be misleading, must assist investors in analysing the future prospects of the issuer and must include all appropriate adjustments permitted by rule 4.29(6), of which the issuer is aware, necessary to give effect to the transaction as if the transaction had been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported on.

(2) The information must clearly state:

(a) the purpose for which it has been prepared;
(b) that it is prepared for illustrative purposes only; and
(c) that because of its nature, it may not give a true picture of the issuer's financial position or results.

(3) The information must be presented in columnar format showing separately the unadjusted financial information, the pro forma adjustments and the pro forma financial information. The pro forma financial information must be prepared in a manner consistent with both the format and accounting policies adopted by the issuer in its financial statements and must identify:

(a) the basis upon which it is prepared; and
(b) the source of each item of information and adjustment.

Pro forma figures must be given no greater prominence in the document than audited figures.

(4) Pro forma financial information may only be published in respect of:

(a) the current financial period;
(b) the most recently completed financial period; and/or
(c) the most recent interim period for which relevant unadjusted information has been or will be published or is being published in the same document;

and, in the case of a pro forma balance sheet or net asset statement, as at the date on which such periods end or ended.

(5) The unadjusted information must be derived from the most recent:

(a) audited published accounts, published interim reports or published interim or annual results announcements;
(b) accountants' report;
(c) previously published pro forma financial information reported on in accordance with rule 4.29(7); or
(d) published profit forecast or estimate.

(6) Any adjustments which are made to the information referred to in rule 4.29(5) in relation to any pro forma statement must be:

(a) clearly shown and explained;
(b) directly attributable to the transaction concerned and not relating to future events or decisions;
(c) factually supportable; and
(d) in respect of a pro forma profit or cash flow statement, clearly identified as to those adjustments which are expected to have a continuing effect on the issuer and those which are not.

(7) The pro forma financial information must be reported on in the document by the auditors or reporting accountants who must report that, in their opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;
(b) such basis is consistent with the accounting policies of the issuer; and
(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to rule 4.29(1).

(8) Where pro forma earnings per share information is given for a transaction which includes the issue of securities, the calculation is to be based on the weighted average number of shares outstanding during the period, adjusted as if that issue had taken place at the beginning of the period.

14.67 (6) (a) on an acquisition of any business, company or companies:

(i) an accountants' report on the business, company or companies being acquired in accordance with Chapter 4 of the Exchange Listing Rules provided that, where any company in question has not or will not become a subsidiary of the listed issuer, the Exchange may be prepared to relax this requirement. The accounts on which the report is based must relate to a financial period ended 6 months or less before the circular is issued. The financial information on the business, company or companies being acquired as contained in the accountants' report must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

Note: Where the accountants can only give a qualified opinion in the accountants' report in respect of the acquisition of the business, company or companies, for example because the records of stock or work-in-progress are inadequate, the Exchange will not accept a written shareholders' approval for the transaction, but will require a general meeting to be held to consider the transaction. (See rule 14.86.) In these circumstances, listed issuers are urged to contact the Exchange as soon as possible.

(ii) a pro forma statement of the assets and liabilities of the listed issuer's group combined with the assets and liabilities of the business, company or companies being acquired on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Exchange Listing Rules; and

(b) on an acquisition of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation:

(i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where the asset has been held by the vendor for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the circular is issued. The financial information on the assets being acquired as contained in the circular must be prepared using accounting policies which should be materially consistent with those of the listed issuer;

(ii) a pro forma statement of the assets and liabilities of the listed issuer's group combined with the assets being acquired on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Exchange Listing Rules; and

14.68 (2) (a) on a disposal of a business, company or companies:

(i) financial information of either:

(A) the business, company or companies being disposed of; or

(B) the listed issuer's group with the business, company or companies being disposed of shown separately as (a) disposal group(s) or (a) discontinuing operation(s),

for the relevant period (as defined in the note to rule 4.06(1)(a)). The financial information must be prepared by the directors of the listed issuer using accounting policies of the listed issuer and must contain at least the income statement, balance sheet, cash flow statement and statement of changes in equity.

The financial information must be reviewed by the listed issuer's auditors or reporting accountants according to the relevant standards published by the Hong Kong Institute of Certified Public Accountants or the International Auditing and Assurance Standards Board of the International Federation of Accountants. The circular must contain a statement that the financial information has been reviewed by the issuer's auditors or reporting accountants and details of any qualifications or modifications in the review report; and

Notes: 1. The listed issuer may include an accountants' report instead of a review by its auditors or reporting accountants. In that case, the accountants' report must comply with Chapter 4 of the Exchange Listing Rules.

2. The Exchange may be prepared to relax the requirements in this rule if the assets of the company or companies being disposed of are not consolidated in the issuer's accounts before the disposal.

(ii) pro forma income statement, balance sheet and cash flow statement of the remaining group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Exchange Listing Rules;

(b) on a disposal of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation:

(i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where the asset has been held by the listed issuer for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the circular is issued; and

(ii) a pro forma profit and loss statement and net assets statement on the remaining group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Exchange Listing Rules;

14.69 (4) (a) on an acquisition of any business, company or companies:

(i) an accountants' report on the business, company or companies being acquired in accordance with Chapter 4 of the Exchange Listing Rules. The accounts on which the report is based must relate to a financial period ended 6 months or less before the listing document or circular is issued. The financial information on the business, company or companies being acquired as contained in the accountants' report must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

(ii) pro forma income statement, balance sheet and cash flow statement of the enlarged group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Exchange Listing Rules;

(b) on an acquisition of any revenue-generating assets (other than a business or a company) with an identifiable income stream or assets valuation:

(i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where, other than in the case of a reverse takeover, the asset has been held by the vendor for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the listing document or circular is issued. The financial information on the assets being acquired as contained in the listing document or circular must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

(ii) a pro forma profit and loss statement and net assets statement on the enlarged group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Exchange Listing Rules;

Appendix 1A

21 A statement of the net tangible asset backing for each class of security for which listing is sought, after making allowance for any new securities to be issued, as detailed in the listing document. (Note 6)

[Note 6 *Where an issuer has caused any property assets to be valued (in accordance with Rule 5.01) or has caused any valuation to be made of any other tangible assets and included such a valuation in the prospectus relating to its initial public offer, the issuer is required to state in its prospectus, by way of note to the adjusted net tangible asset statement, the additional depreciation (if any) that would be charged against the income statement had such assets been stated at valuation.*]

Appendix 1B

13 A statement of the net tangible asset backing for each class of security for which listing is sought, after making allowance for any new securities to be issued, as detailed in the listing document.

APPENDIX C

Extracts of GEM Listing Rules Requirements concerning presentation of Pro Forma Financial Information

Chapter 7

7.27 In the cases referred to in rule 7.01(3) concerning a circular in connection with a major transaction, the pro forma financial information required under rules 19.67(4)(a)(ii) or 19.67(4)(b)(ii) on the enlarged group (i.e. the issuer, its subsidiaries and any business or subsidiary or, where applicable, assets acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up (including but not limited to any business, company or companies being acquired)) must include all the information referred to in rule 7.31 in respect of such enlarged group.

7.28 In the cases referred to in rule 7.01(3) concerning a circular in connection with a reverse takeover or a very substantial acquisition, the pro forma financial information required under rules 19.69(4)(a)(ii) or19.69(4)(b)(ii) on the enlarged group (i.e. the issuer, its subsidiaries and any business or subsidiary or, where applicable, assets acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up (including but not limited to any business, company or companies being acquired)) must include all the information referred to in rule 7.31 in respect of such enlarged group.

7.29 For a circular in connection with a very substantial disposal, the pro forma financial information required under rules 19.68(2)(a)(ii) or 19.68(2)(b)(ii) on the remaining group must include the information referred to in rule 7.31 in respect of the remaining group.

7.30 In the case of a new applicant (rule 7.01(1)) which has acquired or proposed to acquire any businesses or companies, which would at the date of application or such later date of acquisition before listing of the applicant be classified as a major subsidiary, since the date to which the latest audited accounts of the issuer have been made up, it must include in its listing document the pro forma financial information required under rule 7.31 in respect of the enlarged group (i.e. the new applicant, its subsidiaries and any businesses or companies acquired or proposed to be acquired since the date to which the latest audited accounts of the issuer have been made up).

Note: *For purposes of rule 7.30, all acquisitions or proposed acquisitions since the date to which the latest audited accounts in the accountant's report of the issuer have been made up, whether of businesses or companies, should be aggregated. If the aggregated total assets, profits or revenue represents 5% or more under any of the percentage ratios as defined under rule 19.04(9), these acquisitions will be deemed to be an acquisition of a major subsidiary for the purpose of rule 7.30. 100% of the major subsidiary's total assets, profits or revenue (as the case may be) or, where the major subsidiary itself has subsidiaries, the consolidated total assets, profits or revenue (as the case may be) of the major subsidiary is to be* *compared to the total assets, profits or revenue (as the case may be) shown in the issuer's latest audited consolidated financial statements in the accountants' report irrespective of the interest held in the major subsidiary.*

7.31 Where an issuer includes pro forma financial information in any document (whether or not such disclosure of pro forma financial information is required under the GEM Listing Rules), that information must comply with rules 7.31(1) to (6) and a report in the terms of rule 7.31(7) must be included in the relevant document.

(1) The pro forma financial information must provide investors with information about the impact of the transaction the subject of the document by illustrating how that transaction might have affected the financial information presented in the document, had the transaction been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported. The pro forma financial information presented must not be misleading, must assist investors in analysing the future prospects of the issuer and must include all appropriate adjustments permitted by rule 7.31(6), of which the issuer is aware, necessary to give effect to the transaction as if the transaction had been undertaken at the commencement of the period being reported on or, in the case of a pro forma balance sheet or net asset statement, at the date reported on.

(2) The information must clearly state:

(a) the purpose for which it has been prepared;
(b) that it is prepared for illustrative purposes only; and
(c) that because of its nature, it may not give a true picture of the issuer's financial position or results.

(3) The information must be presented in columnar format showing separately the unadjusted financial information, the pro forma adjustments and the pro forma financial information. The pro forma financial information must be prepared in a manner consistent with both the format and accounting policies adopted by the issuer in its financial statements and must identify:

(a) the basis upon which it is prepared; and
(b) the source of each item of information and adjustment.

Pro forma figures must be given no greater prominence in the document than audited figures.

(4) Pro forma financial information may only be published in respect of:

(a) the current financial period;
(b) the most recently completed financial period; and/or
(c) the most recent interim period for which relevant unadjusted information has been or will be published or is being published in the same document;

and, in the case of a pro forma balance sheet or net asset statement, as at the date on which such periods end or ended.

(5) The unadjusted information must be derived from the most recent:

(a) audited published accounts, published half-year reports or published half-year or annual results announcements;
(b) accountants' report;
(c) previously published pro forma financial information reported on in accordance with rule 7.31(7); or
(d) published profit forecast or estimate.

(6) Any adjustments which are made to the information referred to in rule 7.31(5) in relation to any pro forma statement must be:

(a) clearly shown and explained;
(b) directly attributable to the transaction concerned and not relating to future events or decisions;
(c) factually supportable; and
(d) in respect of a pro forma profit or cash flow statement, clearly identified as to those adjustments which are expected to have a continuing effect on the issuer and those which are not.

(7) The pro forma financial information must be reported on in the document by the auditors or reporting accountants who must report that, in their opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;
(b) such basis is consistent with the accounting policies of the issuer; and
(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to rule 7.31(1).

(8) Where pro forma earnings per share information is given for a transaction which includes the issue of securities, the calculation is to be based on the weighted average number of shares outstanding during the period, adjusted as if that issue had taken place at the beginning of the period.

19.67 (6) (a) on an acquisition of any business, company or companies:

(i) an accountants' report on the business, company or companies being acquired in accordance with Chapter 7 provided that, where any company in question has not or will not become a subsidiary of the listed issuer, the Exchange may be prepared to relax this requirement. The accounts on which the report is based must relate to a financial period ended 6 months or less before the circular is issued. The financial information on the business, company or companies being acquired as contained in the accountants' report must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

Note: Where the accountants can only give a qualified opinion in the accountants' report in respect of the acquisition of the business, company or companies, for example because the records of stock or work-in-progress are inadequate, the Exchange will not accept a written shareholders' approval for the transaction, but will require a general meeting to be held to consider the transaction (See rule 19.86). In these circumstances, listed issuers are urged to contact the Exchange as soon as possible.

(ii) a pro forma statement of the assets and liabilities of the listed issuer's group combined with the assets and liabilities of the business, company or companies being acquired on the same accounting basis. The pro forma financial information must comply with Chapter 7; and

(b) on an acquisition of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation:

(i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where the asset has been held by the vendor for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the circular is issued. The financial information on the assets being acquired as contained in the circular must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

(ii) a pro forma statement of the assets and liabilities of the listed issuer's group combined with the assets being acquired on the same accounting basis. The pro forma financial information must comply with Chapter 7; and

19.68 (2) (a) on a disposal of a business, company or companies:

(i) financial information of either:

(A) the business, company or companies being disposed of; or

(B) the listed issuer's group with the business, company or companies being disposed of shown separately as (a) disposal group(s) or (a) discontinuing operation(s),

for the relevant period (as defined in the note to rule 7.05(1)(a)). The financial information must be prepared by the directors of the listed issuer using accounting policies of the listed issuer and must contain at least the income statement, balance sheet, cash flow statement and statement of changes in equity.

The financial information must be reviewed by the listed issuer's auditors or reporting accountants according to the relevant standards published by the Hong Kong Institute of Certified Public Accountants or the International Auditing and Assurance Standards Board of the International Federation of Accountants. The circular must contain a statement that the financial information has been reviewed by the issuer's auditors or reporting accountants and details of any qualifications or modifications in the review report; and

Notes: 1. The listed issuer may include an accountants' report instead of a review by its auditors or reporting accountants. In that case, the accountants' report must comply with Chapter 7.

2. The Exchange may be prepared to relax the requirements in this rule if the assets of the company or companies being disposed of are not consolidated in the issuer's accounts before the disposal.

(ii) pro forma income statement, balance sheet and cash flow statement of the remaining group on the same accounting basis. The pro forma financial information must comply with Chapter 7;

(b) on a disposal of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation:

(i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where the asset has been held by the listed issuer for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the circular is issued;

(ii) a pro forma profit and loss statement and net assets statement on the remaining group on the same accounting basis. The pro forma financial information must comply with Chapter 7; and

19.69 (4) (a) on an acquisition of any business, company or companies:

(i) an accountants' report on the business, company or companies being acquired in accordance with Chapter 7. The accounts on which the report is based must relate to a financial period ended 6 months or less before the listing document or circular is issued. The financial information on the business, company or companies being acquired as contained in the accountants' report must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

(ii) pro forma income statement, balance sheet and cash flow statement of the enlarged group on the same accounting basis. The pro forma financial information must comply with Chapter 7;

(b) on an acquisition of any revenue-generating assets (other than a business or a company) with an identifiable income stream or assets valuation:

(i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where, other than in the case of a reverse takeover, the asset has been held by the vendor for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the listing document or circular is issued. The financial information on the assets being acquired as contained in the listing document or circular must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and

(ii) a pro forma profit and loss statement and net assets statement on the enlarged group on the same accounting basis. The pro forma financial information must comply with Chapter 7;

Appendix 1A

21 A statement of the net tangible asset backing for each class of security for which listing is sought, after making allowance for any new securities to be issued, as detailed in the listing document. (Note 11)

[Note 11. Where an issuer has caused any property assets to be valued (in accordance with Rule 8.01) or has caused any valuation to be made of any other tangible assets and included such a valuation in the prospectus relating to its initial public offer, the issuer is required to state in its prospectus, by way of note to the adjusted net tangible asset statement, the additional depreciation (if any) that would be charged against the income statement had such assets been stated at valuation.]

Appendix 1B

13 A statement of the net tangible asset backing for each class of security for which listing is sought, after making allowance for any new securities to be issued, as detailed in the listing document.