

China Newsletter
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CHINA ACCOUNTING AND AUDITING STANDARDS ACCEPTED BY THE HONG KONG STOCK EXCHANGE

The Hong Kong Exchanges and Clearing Limited ("HKEx") has revised the listing rules to allow mainland firms to use China Accounting Standards for Business Enterprises ("CASBE") and Mainland auditors. Such revision of the listing rules comes into effect on 15 December 2010.

THE CHANGES

The HKEx decided to implement the following changes to the existing framework:

1. Allow Mainland incorporated Main Board and Growth Enterprise Market ("GEM") issuers to prepare their financial statements using Mainland accounting standards;
2. Allow Mainland audit firms approved by the Ministry of Finance ("MOF") of China and the China Securities Regulatory Commission ("CSRC") to service these issuers using Mainland auditing standards; and
3. Provide for a reciprocal arrangement to allow companies incorporated or registered in Hong Kong and listed on the Mainland to prepare their financial statements using Hong Kong Financial Reporting Standards ("HKFRS") or International Financial Reporting Standards ("IFRS") and have them audited by Hong Kong audit firms registered with the Hong Kong Institute of Certified Public Accountants using Hong Kong or International accounting standards.

BENEFITS TO ISSUERS

Many consider the move to allow the adoption of CASBE and the use of approved Mainland auditors as a move to minimise regulatory costs imposed on Chinese firms. A and H share companies that are listed in both Mainland and Hong Kong will now be permitted to produce a single set of financial statements based on CASBE for each reporting period, thereby saving the costs to prepare additional reports under IFRS or HKFRS by a separate firm like previously.

CASBE can be used to prepare financial reports starting from accounting periods ending on or after 15 December 2010. If an existing H-share issuer decides to adopt CASBE, it will have to publish an announcement regarding the change as this is considered price sensitive information. The announcement should include the reasons for the change and show any financial impact subsequent to the transition. Also, since CASBE was only introduced from 1 January 2007, an issuer deciding to adopt CASBE may not have financial data based on CASBE for five years to fulfil the requirement of furnish a five-year historical summary of financial data under Appendix 16.19 of the Main Board Listing Rules and Rule 18.33 of the GEM Listing Rules. In

this case, an existing issuer should show financial information before 1 January 2007 under HKFRS or IFRS.

APPROVED MAINLAND ACCOUNTING FIRMS

Under the new regime, if a Mainland audit firm is to act as an auditor or a reporting accountant for a Mainland incorporated company listed in Hong Kong, it will have to be approved and registered by MOF and CSRC. Currently, there are twelve Mainland accounting firms that have been approved by MOF and CSRC that are eligible to act as reporting accountants and/or auditors for Mainland incorporated companies listed in Hong Kong.

POINTS TO NOTE

There have been concerns that the differences between CASBE and HKFRS (and IFRS), and the differences between Mainland auditing standards and Hong Kong auditing standards may affect the confidence of investors in Hong Kong capital market.

In fact, there has been continuing convergence of CASBE with HKFRS (and IFRS), and Mainland accounting standards with Hong Kong auditing standards. Efforts include the implementation of new Mainland accounting standards by MOF in 2006 that brought forward substantial changes to Mainland accounting standards. Therefore, according to the conclusions of the consultation paper published by the HKEx, the reactions to the adoption of CASBE are generally positive.

Also, the HKEx remains in control as it retains the power to pre-vet issuers' documents prior to their release and may reject documents that have not been properly prepared under Rules 9.07 and 13.52 of the Main Board Rules and Rules 12.15 and 17.53 of GEM Rules.

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