

August 2019

Guidance on Presentation of Non-GAAP Financial Measures

I. Introduction

1. The Stock Exchange of Hong Kong Limited (the “**Exchange**”) issued a guidance letter¹ in April 2019 (HKEX-GL103-19) (the “**Guidance Letter**”) on the presentation of non-GAAP financial measures in a listing document and periodic financial reports.
2. GAAP, or generally accepted accounting principles, is a collection of commonly-followed accounting rules and standards (based on Hong Kong Financial Reporting Standards or International Financial Reporting Standards or China Accounting Standards for Business Enterprises) which offer uniformity in how companies report their financial performance.
3. However, financial statements reported based on GAAP do not always reflect the ongoing performance of a company’s underlying operations as they can vary by company, industry, or sector.
4. It is therefore common for listing applicants and listed issuers to disclose their current, historical or future performance, financial position or cash flow in different ways other than GAAP measures. Examples of such measures include: (i) earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”); (ii) adjusted EBITDA; and (iii) adjusted net profit (that is, net profit excluding one or more expense items such as add back of listing expenses) (the “**non-GAAP financial measures**”). Financial information presented under non-GAAP

¹ https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Interpretation-and-Guidance/Consolidated-PDFs/Guidance-Letters-for-Listed-Issuers/gl_issuers.pdf?la=en

financial measures, however, is sometimes unaudited and may be confusing and misleading.

5. The Guidance Letter hence provides guidance to listing applicants and listed issuers on the presentation of non-GAAP financial measures in the listing documents and periodic financial reports.

II. Guidance

1. Under the Guidance Letter, sponsors should ensure that presentation of non-GAAP financial measures is not misleading by referring to (i) the “Statement on Non-GAAP Financial Measures” published by the International Organization of Securities Commissions²; and (ii) the principles below to increase the reliability and comparability over time of non-GAAP financial measures and reduce the potential for misleading disclosure:-
 - (a) Define each non-GAAP financial measures and provide a clear explanation of the basis of calculation;
 - (b) Be unbiased when use of non-GAAP financial measures;
 - (c) Present the non-GAAP financial measures with no greater prominence than the most directly comparable GAAP measures;
 - (d) Provide a clear and concise quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP measure with explanations on the adjustments in the reconciliation;
 - (e) Present the non-GAAP financial measures with corresponding comparative periods and consistently over time;
 - (f) Use judgement in determining what constitutes a normal, recurring operating expense;
 - (g) Present reconciling adjustments on a gross basis before tax; and
 - (h) Provide readily and easily accessible information regarding non-GAAP financial measures with reference if available.

III. Responsibilities of sponsors, reporting accountants and other experts on the presentation of non-GAAP financial measures

In the Guidance Letter, sponsors, reporting accountants and other experts are

² <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD532.pdf>

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reminded to perform appropriate level of due diligence to ensure accurate presentation of non-GAAP financial measures in a listing document, including but not limited to, the accuracy of the reconciling items and the reasonableness of the adjustments (for example, whether the adjustments would result in double counting).

For more details, please refer to the Guidance Letter.

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