

Q&A on Information Disclosures and Accounting Affairs of

NEEQ-Admitted Companies (I)

- Distribution of Profits and Capitalization of Capital Surplus

Q: What is the base date for financial data in relation to the distribution of profits and capitalization of capital surplus by a NEEQ-admitted company?

A: In practice, some NEEQ-admitted companies have distributed profits and capitalized capital surplus (“entitlement distribution”) based on their capital verification reports or financial data at any time point other than that contained in their periodic reports, which is likely to result in excess distribution and damage the interests of their investors and creditors.

The National Equities Exchange and Quotations (“NEEQ”) is a national securities trading venue for public transfer of shares, but the capital verification report of a NEEQ-admitted company is only a written document which verifies whether paid-in capital from its shareholders has been received and its financial data at any time point other than that contained in its periodic reports is not public and cannot give a full and direct presentation of its financial position and operating results. Therefore, NEEQ-admitted companies cannot base their entitlement distributions on their capital verification reports or financial data at any time point other than that contained in their periodic reports.

To ensure that the entitlement distributions of NEEQ-admitted companies are regulated, any NEEQ-admitted company which intends to conduct an entitlement distribution should treat the final day of the reporting period covered by the latest periodic report publicly disclosed and still within its period of validity (i.e. 6 months after the end of the reporting period) as the base date in its entitlement distribution proposal. In other words, the company’s entitlement distribution should be based on financial data contained in an annual, semi-annual or quarterly report disclosed by it. If no quarterly report is disclosed, the company may rely on its annual or semi-annual report. Financial data on the base date refers to undistributed profits and capital surplus and in the absence of any special arrangement, the capital stock base in connection with an entitlement distribution should be the total number of shares of capital stock on the record date. The implementation of the entitlement distribution proposal must be completed within 2 months after the proposal is approved at the shareholders’ meeting and if the proposal fails to be implemented, it must be considered once again.

The base dates for financial data on which entitlement distributions should be based are as follows:

Date of Consideration for entitlement distribution Proposal	Base Date for Financial Data
January 1 – March 31	December 31 of the previous year
April 1 – June 30	December 31 of the previous year or March 31 of the current year, or based on the first quarterly report if disclosed
July 1 – September 30	June 30 of the current year
October 1 – December 31	June 30 or September 30 of the current year, or based on the third quarterly report if disclosed

This Q&A will come into effect from the date of issuance and will be applicable to any NEEQ-admitted company whose entitlement distribution proposal has not been approved by its shareholders' meeting as of such date.