

HKEx GUIDANCE LETTER

HKEx-GL35-12 (May 2012) (updated in July 2013) - effective for applications submitted on or after 1 October 2013

Subject	Profit forecast
Listing Rules	Main Board Rules 9.11(10)(b) and 11.17 GEM Rules 12.22(14b) and 14.29
Related Publications	Guidance Letter HKEx-GL25-11 (October 2011) (Updated in November 2011, March 2012 and June 2013)
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Important note: *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules or this letter.*

1. Purpose

1.1 The purpose of this letter is to provide guidance and clarification on:

- (i) the difference between profit forecast and profit estimate;
- (ii) when applicants need to include a profit forecast or a profit estimate in a listing document; and
- (iii) the submission of a profit forecast memorandum irrespective of the repeal of Main Board Rule 8.21B.

2. Relevant Listing Rules

2.1 Main Board Rule 11.17 (GEM Rule 14.29) states that a profit forecast means any forecast of profits or losses, however worded, and includes any statement which explicitly or implicitly quantifies the anticipated level of future profits or losses, either expressly or by reference to previous profits or losses or any other benchmark or point of reference. It also includes any profit estimate, being any estimate of profits or losses for a financial period which has expired but for which the results have not yet been audited or published.

2.2 Main Board Rule 11.17 (GEM Rule 14.29) also states that where a profit forecast appears in any listing document, it must be clear, unambiguous and presented in an explicit manner and the principal assumptions, including commercial assumptions, upon which it is based, must be stated.

2.3 Main Board Rule 8.21B on profit forecast in pre-deal research reports was repealed on 1 February 2012.

- 2.4 Main Board Rule 9.11(10)(b) (GEM Rule 12.22(14b)) states that where the Application Proof does not contain a profit forecast, a final or an advanced draft of the board's profit forecast memorandum and cash flow forecast memorandum should be submitted to the Exchange by a listing applicant at the time of submission of the listing application.

3. Guidance

Difference between profit forecast and profit estimate

- 3.1 According to Main Board Rule 11.17 (GEM Rule 14.29), profit forecast includes profit estimate. A profit forecast means any forecast of profits or losses, whereas a profit estimate is an estimate of profits or losses for a financial period which has ended but for which the results have not yet been audited or published.
- 3.2 Main Board Rule 11.17 (GEM Rule 14.29) further states that the principal assumptions on which a profit forecast is based should be stated in a listing document. Principal assumptions are assumptions for major factors which affect a profit forecast. These major factors include, among others, political and economic condition, foreign exchange rate, inflation rate, interest rate and tax rate.
- 3.3 The assumptions must provide useful information to investors to help them in forming a view as to the reasonableness and reliability of the forecast. Although a profit estimate is regarded as a profit forecast, the requirement to state assumptions is not applicable as a profit estimate is related to a financial period which has ended. Factors affecting a profit estimate are already known and there is no need to include any assumptions.

When to include a profit forecast or a profit estimate in a listing document

- 3.4 The inclusion of a profit forecast or a profit estimate in a listing document is on a purely voluntary basis. The inclusion of a profit estimate is only required when a listing applicant applies for a waiver from compliance with Main Board Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) which requires the inclusion in its accountants' report its consolidated results for each of the three financial years immediately preceding the issue of the listing document. The conditions that we would ordinarily expect in a Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) Waiver are set out in Guidance letter HKEx-GL25-11.

Requirement to submit profit and cash flow forecast memorandum

- 3.5 The submission of the profit and cash flow forecast memorandum to the Exchange under Main Board Rule 9.11(10) (GEM Rules 12.22(14a) and 12.22(14b)) is to demonstrate an applicant's sustainability and remains a requirement under the Main Board Rules despite the repeal of Main Board Rule 8.21B.
- 3.6 Applicants should note the difference between Main Board Rules 9.11(10)(a) (GEM Rule 12.22(14a)) and 9.11(10)(b) (GEM Rule 12.22(14b)):
- (i) If an applicant includes a profit forecast in its Application Proof, the profit forecast memorandum should cover the same period of the profit forecast and the cash flow forecast memorandum should cover at least 12 months from the

expected date of publication of the listing document with principal assumptions, accounting policies and calculations for the forecasts under Rule 9.11(10)(a) (GEM Rule 12.22(14a)) .

- (ii) If an applicant does not include a profit forecast in its Application Proof, the profit forecast memorandum should cover the period up to the forthcoming financial year end date after the date of listing and the cash flow forecast memorandum should cover at least 12 months from the expected date of publication of the listing document with principal assumptions, accounting policies and calculations for the forecasts under Rule 9.11(10)(b) (GEM Rule 12.22(14b)).
