

**HKEx GUIDANCE LETTER**  
**HKEx-GL27-12 (January 2012)**

<b>Subject</b>	<b>Simplification Series — Disclosure in listing documents for IPO cases – the “Summary and Highlights” section</b>
<b>Listing Rules and Regulations</b>	<b>Main Board Rules 2.13 and 11.07</b> <b>GEM Rules 14.08(7) and 17.56</b>
<b>Related Publications</b>	N/A
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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 This letter gives guidance on the disclosure in the “Summary and Highlights” section in listing documents. Specifically, it aims to ensure that the section:

- is comprehensible and readable,
- is concise, easy to read and in plain language, and
- enables investors to decide whether they might be interested in the offer, and therefore wish to read the rest of the listing document.

**2. Relevant Listing Rules**

2.1 Main Board Rule 2.13 (GEM Rule 17.56) requires that (i) information contained in the listing document must be clearly presented and in the plain language format specified or recommended by the Exchange and/or the SFC from time to time; and (ii) the information contained in the document must be accurate and complete in all material respects and not be misleading or deceptive. In addition, Main Board Rule 11.07 (GEM Rule 14.08(7)) sets out an overriding general duty of disclosure for the content of a listing document.

### **3. Guidance**

- 3.1 The “Summary and Highlights” section should enable investors to obtain a concise overview of the listing applicant and highlights of significant matters in the listing document set out elsewhere.
- 3.2 Attachment 1 provides some guidance on how to draft the “Summary and Highlights” section in a way that is concise, easy to read, and in plain language. It also provides guidance on what information we would typically expect to see included in the section.
- 3.3 Attachment 1 should not be regarded as a prescriptive checklist of information that must be included. Only information that is considered relevant and necessary for a particular applicant should be included. In assessing this, the applicant should ensure that the content is consistent with the key messages contained in the listing document and the roadshow presentation.
- 3.4 It will not generally be appropriate for the “Summary and Highlights” section to include paragraphs that have been cut and pasted from elsewhere in the listing document. The text in the “Summary and Highlights” section should be a high level overview drafted separately.
- 3.5 We intend to work with market practitioners to help them become familiar with the simplified approach to a succinct and informative summary.
- 3.6 We recognize that this initiative to simplify listing documents involves the exercise of judgment as to what is material. However, there is room for improvement and for summary sections to become more concise and clearer. We expect the general principles in Attachment 1 will help to simplify and improve the content of listing documents in the longer term.

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**1. General guidance on how to draft the Summary and Highlights section in a way that is concise, easy to read and in plain language.**

*General plain language principles*

- use short sentences;
- use definite and direct everyday language;
- use the active voice (e.g. “You should call the helpline for more information” rather than “The helpline is available for more information”);
- avoid superfluous words;
- organize the document into clear, concise sections, paragraphs and sentences with appropriate headings and sub - headings;
- use concise cross referencing with page numbers (e.g. not a list of multiple cross references that is a paragraph in itself and does not include page numbers);
- avoid jargon;
- use personal pronouns to speak directly to the reader;
- avoid repetition;
- avoid vague or irrelevant boilerplate wording;
- avoid abstract terms by using more concrete terms or examples;
- use the positive and avoid multiple negatives.

*Principles for dealing with technical points*

- use simple defined terms (e.g. one or two short words not five long words) and where possible avoid using defined terms within the definition of defined terms;
- avoid reliance on glossaries and defined terms unless they help to understand the disclosure;
- use technical terms only when necessary and explain them; and
- use charts, tables, bullet points and examples where it makes disclosure easier to understand.

*The Summary and Highlights section should omit:*

- detailed description of the applicant’s competitive strengths and business strategies – include a list, or a list with a sentence or two explaining each;
- multiple pages of detailed financial statements – limit disclosure in financial tables to the key line items in the headline financial statements and key financial ratios, with limited disclosure of sector / operating information only where material;

## Attachment 1

- detailed discussion and analysis of the applicant's financial results;
- a full list of risk factors – the summary should at most include a one or two sentence summary of a handful of very material risks;
- dividend policy, except for dividend payout ratio and significant distributions and material matters that should be drawn to investors' attention;
- an industry section – include an industry commentary within the business, strengths or strategies sections, as appropriate;
- detailed bases and assumptions of forecasts and other information – use cross references to other sections of the listing document instead; and
- sections cut and pasted from elsewhere in the listing document – the summary should be drafted separately in a concise, easy to read and plain language manner using the above principles.

*Use tables to make the Summary and Highlights easier to read, for example*

- use of proceeds
- expansion plan and capital expenditure
- key selected financial/ operational ratios
- offering statistics
- profit forecast and pro forma information.

*Overall length of the Summary and Highlights section*

- ask yourself if the Summary and Highlights section is as concise as possible;
- omit irrelevant information that would not be necessary to enable an investor to decide whether they might be interested in the offering and therefore wish to read the rest of the listing document (which will contain the full information required to make an informed investment decision – this does not all need to be included in the summary); and
- the Summary and Highlights section should generally be no more 10 pages long, although this is only a rule of thumb and its actual length will depend on the nature and complexity of the issuer, its business and the offering.

**2. Checklist of information that might be included in the Summary and Highlights section with guidance on what to disclose and how to disclose it.**

Key areas	Purposes	Recommendations
<b><i>Business model</i></b>	<p>The purpose is to provide information concerning the listing applicant's business</p> <ul style="list-style-type: none"> <li>- the applicant's current principal business activities (including any change in the business focus during the track record period), and how they generate revenue.</li> </ul>	<ul style="list-style-type: none"> <li>• principal business activities currently engaged in</li> <li>• where material to the applicant's current business or track record, major development milestones and mergers and acquisitions since establishment</li> <li>• where material to the applicant's current business or track record, any change in the business focus during the track record period</li> <li>• a description of the direction in which the applicant is heading and the expected impact</li> </ul>
	<p>The purpose is to provide information on major stakeholders</p> <ul style="list-style-type: none"> <li>- the applicant's business may be significantly influenced by its stakeholders and their relationship with the listing applicant.</li> </ul>	<ul style="list-style-type: none"> <li>• major customers and distributors, suppliers and contract manufacturers, etc.</li> <li>• sales/distribution channels</li> </ul>
	<p>The purpose is to provide information on market positions within the industry</p> <ul style="list-style-type: none"> <li>- to help investors assess the competitive landscape of the listing applicant's business environment.</li> </ul>	<ul style="list-style-type: none"> <li>• market share/ ranking data</li> <li>• the summary should not generally include a separate industry section, although it may refer to industry trends within this area and under strengths and strategy</li> <li>• consider more generally whether a separate industry section is required in the listing document at all</li> </ul>

Key areas	Purposes	Recommendations
	<p>The purpose is to provide a summary of the applicant's competitive strengths and business strategies</p>	<ul style="list-style-type: none"> <li>• list the competitive strengths and business strategies</li> <li>• an applicant may also include one or two sentences for each competitive strength and business strategy by way of explanation if felt necessary</li> <li>• do not cut and paste full competitive strengths and business strategies from business section</li> </ul>
<b>Shareholder information</b>	<p>The purpose is to provide information on major shareholders and investors that may control or have an influence on the listing applicant:</p> <ul style="list-style-type: none"> <li>- investors should be given clear information about them, including any business competition and key business relationships they have with the applicant.</li> </ul>	<ul style="list-style-type: none"> <li>• major shareholders and investors at the pre-IPO stage, shortly before or, at the same time as, listing, etc.</li> <li>• competition and key business relationships with controlling shareholders (e.g. key connected transactions), if any</li> <li>• dilution impact resulting from full exercise of all outstanding pre-IPO share options and/or other derivatives, if it would materially affect the shareholding structure</li> </ul>
<b>Key operational and financial data</b>	<p>The provision of key selected financial information/ratios provides a quick overview of the applicant's financial condition and results of operations during the track record period.</p>	<p>To be tailored to the applicant, but by way of example:</p> <ul style="list-style-type: none"> <li>• key selected financial information/ ratios (e.g. revenue, gross profit, net profit, gross profit margin, net profit margin, gearing, current ratio) with segmental breakdown of revenue and gross margin (e.g. by business, products, geographical areas, etc.) where material</li> <li>• key selected operating indicators (e.g. production volume, average selling price, production capacity and utilisation rate) where material</li> </ul> <p>Financial and operational data should be a quick overview and should not typically run to more than two pages (and should ideally be limited to a page).</p> <p>Keep any discussion and analysis to high level and short.</p>

<b>Key areas</b>	<b>Purposes</b>	<b>Recommendations</b>
<b><i>Future plans and prospects</i></b>	Information on use of IPO proceeds gives an idea on the future plans and prospects of an applicant.	<ul style="list-style-type: none"> <li>• future plans and use of proceeds in bullet or table form</li> </ul>
	Information on the dividend policy including historical significant distributions, and expected dividend payout ratio of an applicant enables investors to assess its dividend payout trend and intentions.	<ul style="list-style-type: none"> <li>• dividend policy (e.g. expected dividend payout ratio and significant distributions or matters that should be drawn to investors' attention)</li> </ul>
<b><i>Offer related information and Profit Forecast</i></b>	<p>Key offering statistics provide key information regarding the offer.</p> <p>Summary disclosure of profit forecast (where included in the listing document)</p>	<ul style="list-style-type: none"> <li>• key offering statistics (e.g. number of shares to be issued, range of expected market capitalisation and adjusted net tangible value per share, etc.) in table form</li> <li>• where a full-year profit forecast is included in the listing document, forecast P/E ratio (or other meaningful financial ratio derived from the profit forecast) for investors' reference</li> <li>• cross refer to bases and assumptions in appendices/ other sections of the listing document rather than copying them out in the summary.</li> </ul>

Key areas	Purposes	Recommendations
<i>Other information</i>	Highlights of any other significant matters or issues affecting the issuer or the offering.	<p>For example:</p> <ul style="list-style-type: none"> <li>• deteriorating/ highly fluctuating financial results after the track record period, significant non-recurring items in income statements, adverse change in business trends, market positions or regulatory environment</li> <li>• material non-compliance and litigation incidents and other material events (e.g. product recalls)</li> <li>• a one or two sentence summary of any very material risk factors that the listing applicant considers appropriate to include upfront in the Summary section. Otherwise cross-reference to the Risk Factors section – do not list all risk factors.</li> <li>• key non-standard ongoing waivers granted</li> <li>• other material company/industry-specific information, if any (e.g. for introduction cases – liquidity measures, information on share price/ trading volume, etc.; for property companies – list of projects; for companies whose businesses may be significantly affected by commodity prices/ fair value changes - sensitivity analysis and key initiatives to manage these risk exposures; for novel overseas jurisdictions, highlights on laws and regulations, etc.)</li> </ul>