

## **HKE<sub>x</sub> GUIDANCE LETTER**

**HKE<sub>x</sub>-GL27-12 (January 2012) (Updated in June, July and November 2013, and January 2014) – effective for applications submitted on or after 1 October 2013**

<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 GEM Rules 14.08(7) and 17.56</b>
<b>Related Publications</b>	<b>Frequently Asked Questions Series 23 HKE<sub>x</sub>-GL33-12 – Disclosure in listing documents for IPO cases – Use of Proceeds  HKE<sub>x</sub>-GL41-12 – Disclosure requirements for IPO cases – Disclosure of material changes in financial, operational and/ or trading position after trading record period</b>
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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 provides 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.

1.2 The Exchange expects applicants to follow this letter when preparing their listing applications. A listing document that does not follow this guidance may be considered not substantially complete as required under the Listing Rules (*Updated in July 2013*).

### **2. Relevant Requirements**

2.1 Main Board Rule 2.13 (GEM Rule 17.56) requires that (i) the 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 Commission from time to time; and (ii) the information contained in the listing 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 in a listing document.

### **3. Guidance**

- 3.1 The “Summary and Highlights” section should enable investors to obtain a concise overview of an applicant and highlights of significant matters disclosed elsewhere in the listing document.
- 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 be 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 an applicant should be included. In assessing this, an applicant should ensure that the content is consistent with the key messages contain in its listing document and 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. We recognize that this initiative involves the exercise of judgment as to what is material information. However, there is room for improvement and for the “Summary and Highlights” section to become more concise and clearer. We expect the general principles in Attachment 1 will help to simplify and improve the content of a listing document.

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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;
- choose a legible type size. A point size that is too small is difficult to read. Generally, a point size in 10pt - 12pt is more appropriate. Please note that different typesets in the same point size are not the same (*updated in June 2013*);
- 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 listing 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 jargons;
- use personal pronouns to speak directly to the reader;
- avoid repetition;
- avoid vague or irrelevant boilerplate wordings;
- avoid abstract terms by using more concrete terms or examples; and
- 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 an applicant’s competitive strengths and business strategies – include a list, or a list with a sentence or two briefly explaining each;

## **Attachment 1**

- multiple pages of detailed financial statements – limit disclosure in financial tables to the key line items in the headline financial statements, key financial ratios, and material sector / operating information;
- detailed discussion and analysis of an applicant’s financial results;
- a full list of risk factors – the summary should highlight the most material risks to an applicant and make reference to the “Risk Factors” section for other 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; and
- detailed bases and assumptions of forecasts and other information – use cross references to other sections of the listing document instead.

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

- use of proceeds;
- expansion plan and capital expenditure;
- key selected financial/ operational ratios;
- offering statistics; and
- 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 he 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 Highlights” section); and
- the “Summary and Highlights” section should generally be no more than 10 pages , although this is only a rule of thumb and its actual length will depend on the nature and complexity of an applicant, 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
<p><b><i>Business model</i></b></p>	<p>Provide information on an applicant’s business</p> <ul style="list-style-type: none"> <li>- an applicant’s current principal business activities (including any change in the business focus during and after the track record period), and how they generate revenue.</li> </ul>	<ul style="list-style-type: none"> <li>• an applicant’s current principal business activities</li> <li>• where material to an applicant’s current business or track record, major development milestones and mergers and acquisitions</li> <li>• where material to an applicant’s current business or track record, any change in the business focus during and after the track record period</li> <li>• a description of the business direction in which an applicant is heading and the expected impact on its operations and financial position</li> </ul>
	<p>Provide information on major stakeholders</p> <ul style="list-style-type: none"> <li>- an applicant’s business may be significantly influenced by its major stakeholders and their relationship with the 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>Provide information on an applicant’s market positions within the industry</p> <ul style="list-style-type: none"> <li>- to help investors assess the competitive landscape of an applicant’s business.</li> </ul>	<ul style="list-style-type: none"> <li>• market share/ ranking data of key market players</li> <li>• the “Summary and Highlights” section should not generally include a separate industry section, although it may refer to industry trends within this area and under strengths and strategy</li> </ul>
	<p>Provide a summary of an 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 briefly explaining each competitive strength and business strategy if necessary</li> <li>• do not cut and paste full competitive strengths and business strategies from “Business” section</li> </ul>

<b>Key areas</b>	<b>Purposes</b>	<b>Recommendations</b>
<b><i>Shareholder information</i></b>	<p>Provide information on major shareholders and investors that may control or have an influence on an applicant:</p> <ul style="list-style-type: none"> <li>- to help investors assess any key business relationship between them and the applicant and business competition.</li> </ul>	<ul style="list-style-type: none"> <li>• major shareholders and pre-IPO investors 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><i>Key operational and financial data</i></b>	<p>Provide a quick overview of an applicant's financial condition and results of operations during the track record period.</p>	<p>To be tailored to an applicant, but by way of example:</p> <ul style="list-style-type: none"> <li>• key 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 profit (e.g. by business, products, geographical areas, etc.)</li> <li>• key operating indicators (e.g. production volume, average selling price, production capacity and utilisation rate)</li> </ul> <p>Financial and operational data should preferably be limited to a page.</p> <p>Focus on high level discussion and analysis and keep it short.</p>

Key areas	Purposes	Recommendations
<b><i>Recent development (Updated in July and November 2013, and January 2014)</i></b>	Provide an update on an applicant's operations and financial position since the latest audited financial period/year.	<ul style="list-style-type: none"> <li>• an update on an applicant's business and its industry, and/or market or regulatory environment to no more than ten calendar days before the date of a listing document (i.e. latest practicable date)</li> <li>• an applicant should disclose qualitative information or quantitative information with commentary relating to its financial performance and profitability <sup>1</sup> (e.g. revenue, gross profit/ loss, gross profit/ loss margin, and/or operating data such as average selling price and sale volume). Where an applicant discloses quantitative information relating to its financial performance after the track record period other than net profit/ loss (e.g. revenue, gross profit, etc.), this non-profit forecast financial information should be reviewed by the reporting accountants, and a statement must be included in the listing document that the non-profit forecast financial information has been reviewed by the reporting accountants. An applicant with material changes in its financial, operational and/or trading position after the trading record period should refer to Guidance Letter HKEx-GL41-12 for the additional disclosures</li> <li>• significant non-recurrent items in income statements</li> </ul>
<b><i>Listing expenses (Updated in July and November 2013)</i></b>	Enable investors to assess the impact of listing expenses on an applicant's financial performance.	<ul style="list-style-type: none"> <li>• total amount of listing expenses relating to the offer, and the accounting treatment (i.e. a breakdown of the amount of listing expenses charged to the income statement/ equity during the Track Record Period and/ or that will charged to the income statement/ equity after the Track Record Period) of such expenses</li> </ul>
<b><i>Future plans and prospects</i></b>	Provide investors an idea on an applicant's future plans and prospects.	<ul style="list-style-type: none"> <li>• detailed breakdown of the use of proceeds for various future plans and the expected timing of the use of proceeds in bullet or table form</li> </ul>
	Information on an applicant's dividend policy, including historical significant distributions and expected dividend payout ratio, enables investors to assess its dividend payout trend and intentions.	<ul style="list-style-type: none"> <li>• expected dividend payout ratio and significant distributions or matters that should be drawn to investors' attention</li> </ul>

<sup>1</sup> Reference should be made to our Frequently Asked Questions Series 23 "Disclosure of a new applicant's unaudited net profits/ losses after its track record period in a listing document".

Key areas	Purposes	Recommendations
<i>Offer related information and Profit Forecast</i>	Key information for investors who wish to subscribe for an applicant's shares	<ul style="list-style-type: none"> <li>• key offer 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 a listing document, forecast P/E ratio (or other meaningful financial ratio derived from the profit forecast) for investors' reference</li> <li>• cross reference to bases and assumptions in appendices/ other sections of a listing document rather than copying them out in the "Summary and Highlights" section</li> </ul>
<i>Other information</i>	Highlights of any other significant matters or issues affecting an applicant or the offering.	<p>For example:</p> <ul style="list-style-type: none"> <li>• material non-compliance and litigation incidents and other material events (e.g. product recalls)</li> <li>• most material risks to an applicant and cross reference to the "Risk Factors" section</li> <li>• 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>