HKEx GUIDANCE LETTER
HKEx-GL41-12 (August 2012) (Updated in November 2013 and January 2014)

Subject	**Disclosure requirements for IPO cases – Disclosure of material changes in financial, operational and/ or trading position after trading record period**
Listing Rules and Regulations	**Paragraph 38 of Appendix 1A of Main Board Rules** **Paragraph 38 of Appendix 1A of GEM Rules**
Related Publications	**Frequently Asked Questions Series 23** **HKEx-GL27-12 – Simplification Series – Disclosure in listing documents for IPO cases – the "Summary and Highlights" section**
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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 Every applicant's IPO prospectus should disclose updated information relating to its financial, operational and/ or trading position after the trading record period. ***(Added in January 2014)***

1.2 This letter provides guidance on the disclosure in an IPO prospectus of material changes in financial, operational and/ or trading position after the trading record period.

1.3 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 ***(Added in January 2014)***.

2. Background

2.1 Information contained in an IPO prospectus can be statements of historical facts or forward looking statements. Both serve the same purpose: to enable investors to make a fully informed decision on a listing applicant and on the securities for which listing is sought. Forward looking statements in a prospectus appear in the form of prospective financial information (e.g. profit forecast) or other statements of an issuer's expectations about its future strategies, plans and prospects.

2.2 However, inclusion of a profit forecast is not mandatory under the Rules. Where an applicant decides not to include a profit forecast in its prospectus, there should be sufficient information in the IPO prospectus on any material changes after the trading record period and the applicant's future prospects.

2.3 The Rules require a listing document to include a statement as to the financial and trading prospects of the group for at least the current financial year, together with any material information which may be relevant to them. Inclusion of a profit forecast in a prospectus helps potential investors to assess the applicants' likely future financial performance and to compare it with the trend presented in the historical financial information of the trading record period.

3. Relevant Requirements

3.1 Main Board Rule 2.13 (GEM Rule 2.18) requires that information contained in the Prospectus must be accurate and complete in all material respects and not be misleading or deceptive.

3.2 Paragraph 38 of Appendix 1A to the Main Board Rules (Paragraph 38 of Appendix 1A of the GEM Rules) requires disclosure of a statement by the directors of any material adverse change in the financial or trading position of the group since the end of the period reported on in the accountants' report, or an appropriate negative statement.

4. Guidance

4.1 "*Material adverse change*" is a commonly used term in commercial arrangements. Sponsors and listing applicants are best positioned to determine what information is material having regard to the specific facts and circumstances of each listing applicant.

4.2 While we recognise that making this determination requires a degree of professional judgment on the part of the sponsors and listing applicants, we consider that in assessing whether a piece of information constitutes a material adverse change, sponsors and listing applicants should consider, as a minimum, whether there is any adverse change which has taken place or is expected to take place in the near future, in the technological, market, economic, legal or operating environment in which the applicant operates. The following are non-exhaustive examples of adverse changes, which will require disclosure if material:

<u>Financial</u>

(i) adverse change in the trend of financial performance compared with the historical financial results disclosed in the prospectus; ***(Updated in November 2013)***

(ii) adverse change in market interest rates, prices of key products sold/ services provided and/or key raw materials;

Trading

(iii) loss of major customers/suppliers or evidence of their deteriorating financial condition/ performance;

(iv) evidence or rumours affecting customers' acceptance of applicant's products/ services or material product returns/ recall requests from customers;

(v) litigation/ potential litigation from suppliers, customers or other stakeholders;

(vi) international sanctions on countries/ companies with which the applicant has conducted business;

Operational

(vii) loss of permits/ licences/ patents or other intellectual property or evidence of changes in laws and regulations which are key to the applicant's operation;

(viii) change in government policies in subsidizing specific industries by way of government grants or preferential tax arrangement or other means;

(ix) change in regulations such as prohibiting adoption of structured contracts or other regulatory matters;

(x) evidence of obsolescence of or physical damage to the applicant's key production units/ assets/ inventories;

(xi) discovery of new or any adverse developments in existing material litigation/ threatened claims;

(xii) loss of key personnel;

(xiii) significant labour disputes/ strikes; or

(xiv) any other material facts which adversely affect or are likely to adversely affect the applicant's operating environment.

4.3 We would expect either qualitative or quantitative disclosure with commentary on how the adverse changes including but not limited to those set out in paragraph 4.2 above affect the financial, operational and/ or trading position after the trading record period[1]. 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. ***(Updated in January 2014)***

[1] 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".

4.4 There may be mitigating factors to reduce the potential impact of financial or operational loss to the applicant. This does not negate the necessity to disclose the adverse changes.

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