

HKEX* GUIDANCE LETTER
HKEX*-GL45-12 (November 2012) (Updated in February 2018)

[To update the minimum cashflow requirement]

Subject	Trading record requirements
Listing Rules	Rules 4.04 and 8.05(1) of Main Board Rules Rules 7.03, 11.10 and 11.12A of GEM Rules
Related Publications	N/A
Author	IPO <u>Vetting Team</u>Transactions Department

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 Department~~Division~~ on a confidential basis for an interpretation of the Listing Rules, or this letter.*

1. Purpose

- 1.1 This letter provides guidance on matters relating to the trading record requirements under the Main Board Listing Rules and GEM Listing Rules after several enquiries have been received.

2. Background

- 2.1 The Listing Rules require that a new applicant must have an adequate trading record. The requirement has two limbs: (i) the minimum length of the trading record and (ii) the minimum amount of profits (for Main Board) or cash flows (for GEM) during such period.
- 2.2 The length of the trading record for the purpose of the Main Board Listing Rules is a period of not less than three financial years whereas that for GEM Listing Rules is a period of not less than two financial years. A financial year does not necessarily equal to a period of twelve months (see paragraphs 4.1 to 4.3 below)
- 2.3 Where a new applicant conducts certain preparation activities such as business planning, construction of factory facilities, procurement of raw materials, preliminary negotiations with potential customers and trial production before it commences trading activities, it is questionable whether such activities can be counted towards satisfaction of the trading record requirements.

3. Relevant Requirements

- 3.1 Main Board Listing Rule 8.05(1) states, among others, that a new applicant must have an adequate trading record under substantially the same management and ownership. This means that the issuer must satisfy a trading record of not less than three financial years during which the profit attributable to shareholders must, in respect of the most recent year, be not less than HK\$20,000,000 and, in respect of the two preceding years, be in aggregate not less than HK\$30,000,000. The profit mentioned above should exclude any income or loss of the issuer, or its group, generated by activities outside the ordinary and usual course of its business.
- 3.2 GEM Listing Rule 11.12A(1) states, among others, that a new applicant or its group must have an adequate trading record of at least two financial years comprising a positive cash flow generated from operating activities in the ordinary and usual course of business before changes in working capital and taxes paid. Such positive cash flow from operating activities carried out by the new applicant, or its group, that are to be listed, must be of at least HK\$320,000,000 in aggregate for the two financial years immediately preceding the issue of the listing document. ***(Updated in February 2018)***

4. Guidance

A financial year does not necessarily cover a calendar year or twelve months

- 4.1 Rule 1.01 of Main Board Listing Rules (Rule 1.01 of GEM Listing Rules) defines a financial year as the period in respect of which any profit and loss account of a company laid or to be laid before it in a general meeting is made up, whether that period is a year or not.
- 4.2 Therefore, the trading record requirements of three financial years for Main Board applicants and two financial years for GEM applicants do not necessarily correspond to a period of three calendar years or two calendar years.
- 4.3 For example, a Main Board applicant adopts 31 December as its financial year end. If the applicant was only incorporated on 1 April in the first year, its trading record will cover the nine months from 1 April to 31 December Year 1, the year ended 31 December Year 2 and the year ended 31 December Year 3. Although there is only 9 months in Year 1 of the trading record period, it is still regarded as a full financial year if the applicant's profit and loss account for that period was laid before it in a general meeting.

Whether preparation activities should be counted towards satisfaction of the trading record requirement

- 4.4 The trading record of an applicant refers to the record of the applicant's trading activities, including its revenue, expenses, cash flows, assets and liabilities arising from the core businesses of the applicant. Where an applicant is still at the preparatory stage and has not yet commenced generating any revenue, the expenses related to preparation activities such as business planning, construction of factory facilities, procurement of raw materials, preliminary negotiations with potential customers or trial production, or ancillary income or revenue generated outside the

ordinary and usual course of business should not be counted towards satisfaction of adequate trading record.

- 4.5 Therefore, where an applicant did not carry out any trading activity during any part of its financial year, that period would not be taken as part of its trading record.
