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# LISTING DOCUMENT SIMPLIFICATION GUIDE

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# 1. Background



## Background

- Observations on Listing Documents in Hong Kong
  - too long
    - listing documents in Hong Kong are generally longer than those in other major markets
    - compared 60 listing documents from Hong Kong and other global markets from April 2010 to June 2014
    - HK (518 pages); US (290 pages); UK (323 pages); Australia (172 pages); Singapore (466 pages)
  - use of legalistic and technical language
  - certain listing documents are like marketing documents (e.g. overstate the business)
  - poor explanation of business model



## Background

- SFC initiative:
  - *“How to create a clear prospectus”* published in January 1998
- Overseas experience:
  - U.S. Securities and Exchange Commission – Rule 421 adopted in 1998
  - Australian Securities & Investments Commission published a regulatory guide *“Prospectuses: Effective disclosure for retail investors”* in November 2011
  - Monetary Authority of Singapore published *“Guidelines on Good Drafting Practices for Prospectuses”* in July 2015



# 2. Overview of the Guide



## Purpose

The Listing Document Simplification Guide (**Guide**) is intended to:

- Assist applicants and their advisors to produce listing documents with succinct and relevant information for potential investors to make an informed assessment of applicants
- Improve investors' ability to find and understand information in listing documents
- Consolidate and update guidance on information we expect to be included in different sections of a listing document
- The Guide does not
  - prescribe a “one size fits all” formula in preparing listing documents; or
  - identify a checklist of information which must or must not be disclosed





## Content

The Guide is divided into three parts:

- General guidance on producing clear and concise listing documents (**General Guidance**)
- Consolidated and updated version of a number of the Exchange's guidance letters on disclosure in listing documents. All of these guidance letters are published on the Exchange's website and most are included under the title "Simplification Series" (**Consolidated Guidance**); and
- Online hyperlinks to:
  - sample "Summary of the Constitution of the Company and the Laws of Place of Incorporation" sections of listing documents of applicants incorporated in Bermuda, the Cayman Islands and the PRC (**Specimen Sections**); and
  - the corresponding sample constitutional documents for applicants (**Sample Constitutional Documents**)



# Compliance

## General Guidance

- The Exchange will not return a listing application merely because it does not follow the General Guidance, but will note them in our comments
  - the Exchange will review how the market has adopted the General Guidance after 12 months of its publication



## Compliance (cont'd)

### Consolidated Guidance

- Applicants which intend to submit their listing applications on or before 30 April 2016 may comply with either the Consolidated Guidance or the Exchange's guidance letters on disclosure in listing documents (all of these guidance letters are published on the Exchange's website and most are included under the title "Simplification Series"), when preparing their listing documents
- Applicants which intend to submit their listing applications after 30 April 2016 **must** comply with the Consolidated Guidance
  - a listing document that does not follow the Consolidated Guidance may be considered not substantially complete as required under the Listing Rules



## Compliance (cont'd)

### Specimen Sections and Sample Constitutional Documents

- The Specimen Sections and the Sample Constitutional Documents are for reference only. See “5. Specimen Sections and Sample Constitutional Documents” below



# 3. General Guidance



## General Guidance

1. Does the information need to be disclosed
2. Simplify the language
3. Avoid using defined term or technical jargon
4. Simplify the layout



## 1. Does the information need to be disclosed

Unnecessary information is often included in a listing document simply because other published listing documents contain it. Consider the business of the applicant and critically assess whether each piece of information needs to be disclosed. Do not include immaterial information that obscures material information

Consider why each piece of information is disclosed in the listing document

- Is it relevant and material (i.e. would its omission or misstatement affect an investor in making an informed assessment about the applicant)
- If it is material, is the disclosure clear and not misleading
- Is it required by a specific requirement under applicable laws and regulations or the Listing Rules
- Is it specific to the business of the applicant
- Has it been disclosed elsewhere in the listing document



## 1. Does the information need to be disclosed (cont'd)

### Examples of irrelevant or misleading disclosure

- If the largest customer only accounted for 10% of total revenue during the track record period, a risk factor on customer concentration is irrelevant
- For certain consumer products that are consumed regularly (e.g. soap), seasonality is irrelevant and such risk factor is confusing
- The listing document stated that the industry was dominated by top four players and the Company was ranked fourth
  - while technically true, the top three players accounted for over 75% of the total revenue of the industry. The Company accounted for only 2.5% of the total revenue of the industry.
  - misleading to count the Company among the dominant players in the industry



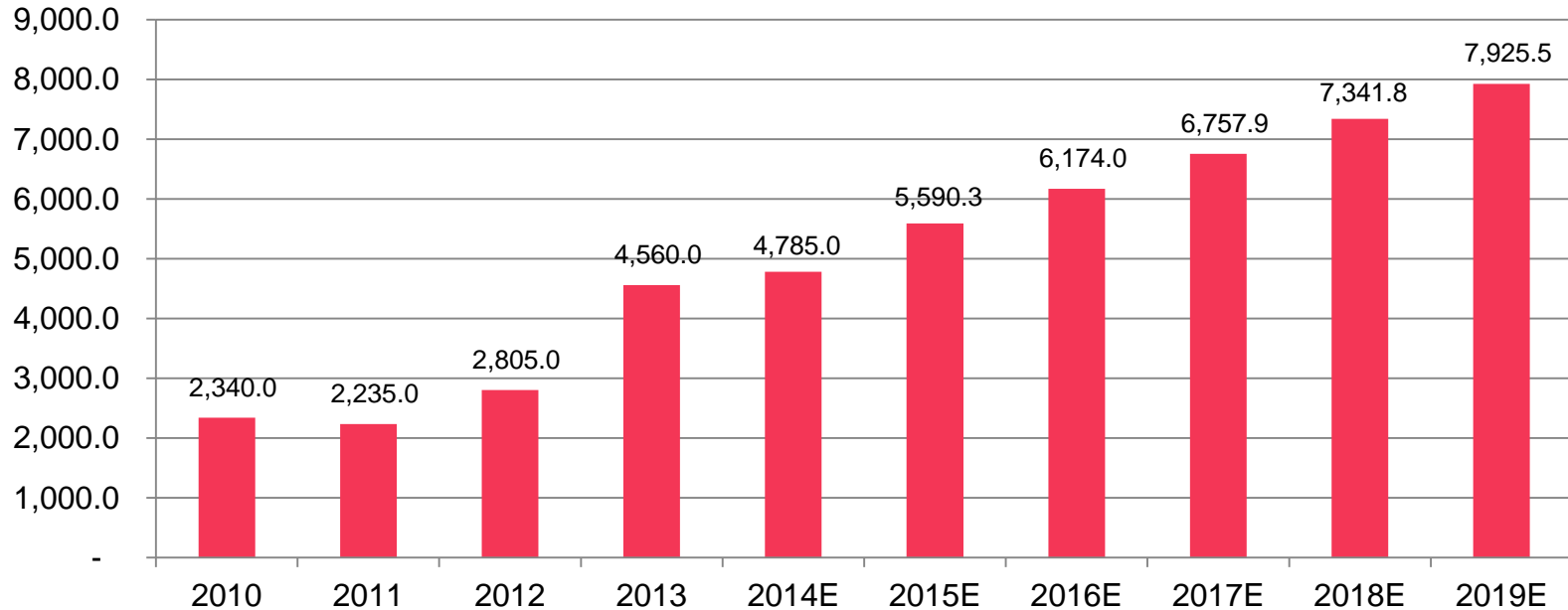


# 1. Does the information need to be disclosed (cont'd)

## Examples of irrelevant or misleading disclosure

MOP Million

### Revenue of Fitting-out Industry in Macau

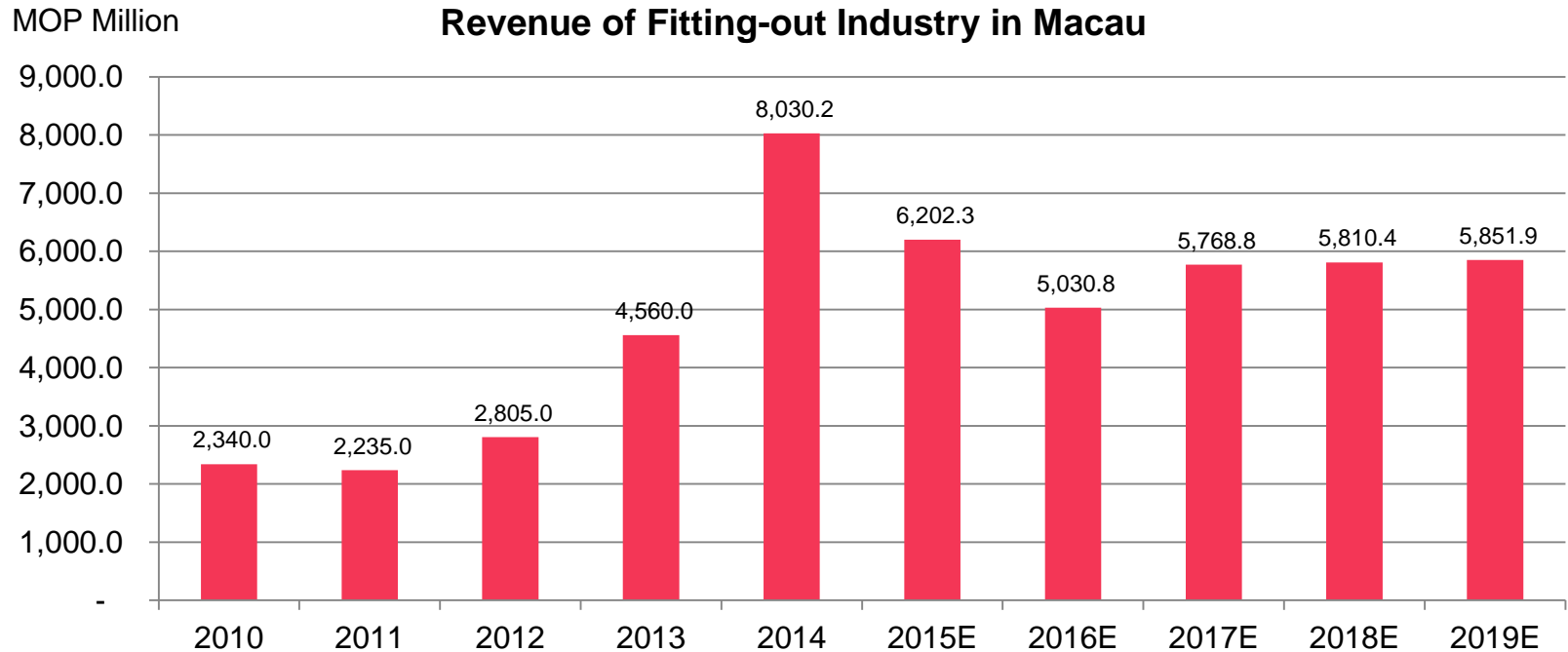


- the company is a contractor focused on remodeling in Hong Kong and Macau
- we questioned the forecast given the recent downturn in the gaming industry in Macau



# 1. Does the information need to be disclosed (cont'd)

## Examples of irrelevant or misleading disclosure



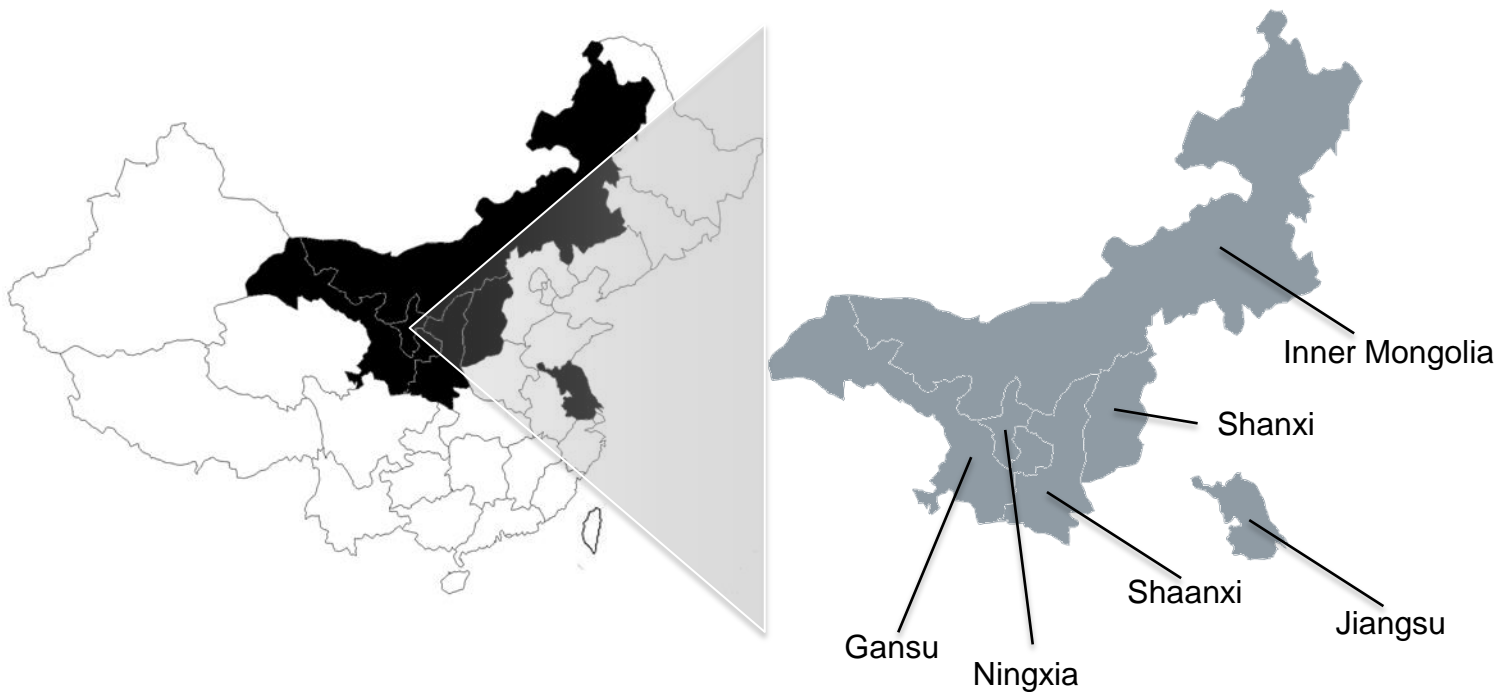
- revised chart after taking into account that not less than 20 hotel buildings and 26,000 residential building properties will be completed between 2015 to 2019



# 1. Does the information need to be disclosed (cont'd)

## Examples of irrelevant or misleading disclosure

- Company claimed to be the second largest retailer by number of stores in “Northwestern China”, as defined by the industry consultant



## 1. Does the information need to be disclosed (cont'd)

### Examples of irrelevant or misleading disclosure

- it failed to give any context as to how such ranking was calculated
- in fact, the company had no presence in three out of the five provinces comprising “*Northwestern China*”
- in fact, 70% of its stores were located in, and sales were derived from, one city in one of the provinces comprising “*Northwestern China*”



## 1. Does the information need to be disclosed (cont'd)

### Examples of irrelevant or misleading disclosure

- *“We are a renowned company incorporated in [province A] with a national presence across [the country]”*
  - over 80% of the projects were located in [province A]. While the Company does have a national presence, this statement is misleading because it does not clarify that the Company’s business is highly concentrated in one region
- *“We are the only nationwide [product] company headquartered in [province A]”*
  - the scope of comparison is too narrow and does not fairly compare itself with similar companies in the same industry



## 1. Does the information need to be disclosed (cont'd)

### Examples of irrelevant or misleading disclosure

- *“We entered into strategic agreements with [major customers] for ten years, under which we have secured long-term purchase commitments from [major customers] for all products to be produced at our factories”*
  - the company’s selling point is that they have guaranteed customers for its product and is assured of selling an agreed minimum amount
  - however, it failed to duly emphasize that it had chosen not to enforce agreed minimum purchase clause because the industry is dominated by a handful of buyers who had more leverage. Therefore, the purchase commitments are effectively unenforceable and the implicit assurance is misleading



## 1. Does the information need to be disclosed (cont'd)

### Examples of irrelevant or misleading disclosure

- *“Our customers primarily consist of individual users. The number of users who used our services increased from approximately [x] million in 20[xx] to approximately [y] million in 20[xx] and approximately [z] million in 20[xx], representing a CAGR of over 50%”*
  - firstly, the disclosure is incorrect because the individual users are not direct customers of the company. Rather the company’s customers are banks and the individual users are bank customers. By emphasizing the high number of individual users, it implied that there is high demand for its services
  - this is misleading since the company’s service is the only one of its kind offered by these banks; so bank customers who wanted this service had to go through the company. The company should have highlighted that the high user rate resulted from the critical relationship with its bank customers



# 1. Does the information need to be disclosed (cont'd)

## Examples of poorly explained business model

- Characteristics of Company A
  - 67% of revenue were derived from finance lease income
  - 28% of revenue were derived from advisory services related to financing, equipment and industry
  - 73% of net lease receivables before provisions was attributable to customers in healthcare industry
  - among the 10 largest MOFCOM-approved *financial leasing companies* in China, had the highest business focus on healthcare industry





## 1. Does the information need to be disclosed (cont'd)

### Examples of poorly explained business model

- What the listing document states:

*“We are the largest integrated healthcare solutions provider in China in terms of revenue. We offer our customers a variety of integrated healthcare solutions, including (1) equipment financing solutions, (2) healthcare industry, equipment and financing advisory services and (3) clinical department upgrade solutions. Our clinical department upgrade solutions integrate clinical department upgrade advisory services, medical equipment sourcing services and operating lease services, assisting our hospital customers in establishing or upgrading select clinical departments”*

*“Leveraging our industry knowledge and experience, we have established a distinctive business model. We offer our customers a variety of integrated solutions, backed by our platform of resources”*



# 1. Does the information need to be disclosed (cont'd)

## Examples of poorly explained business model

- Characteristics of Company B
  - major business (over 85% of total revenue): provide services/products to facilitate media content production, broadcast and transmission
  - for media production and broadcast: provide system engineering design, software and hardware equipment used in the system and system integration
  - for media transmission: provide systems and equipment for electronic transmission of various formats of media content



## 1. Does the information need to be disclosed (cont'd)

### Examples of poorly explained business model

- What the listing document states:

*“We are the leading China-based one-stop provider of high-end (i) integrated information transmission solutions for content production, broadcast and transmission; (ii) event broadcast services, and (iii) system maintenance services. In addition, we develop and sell broadcast and transmission equipment. Our application solutions, services and equipment are used by a wide range of customers requiring services relating to integrated information transmission, including broadcasters, event producers, new media providers, enterprises and government agencies”*



# 1. Does the information need to be disclosed (cont'd)

## Examples of poorly explained business model

- Characteristics of Company C
  - 66% of revenue was derived from equipment rental to engineering, construction and event organizing companies
  - 4% of revenue was derived from selling supply spare parts and providing other related services such as technical support and transportation service in connection with the equipment rental
  - sells used rental equipment to customers from time to time
  - of the equipment it rents to customers, over 70% is rented (i.e., equipment is sub-leased to customers)
  - rental payments to one supplier accounted for over 90% of the company's rental costs



## 1. Does the information need to be disclosed (cont'd)

### Examples of poorly explained business model

- What the listing document states:

*“We are principally engaged in the rental of equipment and provision of one-stop value-added rental services to customers. Our equipment may be rented to customers on (i) non-operated basis (without the provision of operators), (ii) operated basis (where we provide our operators to operate the equipment), or (iii) contract basis (with inclusion of equipment planning, transportation, installation, operation, standby refuelling and maintenance, disassembling and other technical support services).*

*As part of our rental services, we supply spare equipment parts, and provide other equipment related services such as technical support and transportation service for equipment. As part of our fleet management and full service capability, we sell our used rental equipment to customers from time to time, receive proceeds from such disposal. With our established equipment sales channels, we trade new and used equipment to match the requirements of customers and this also broadens our customer base and streams of revenue”*



# 1. Does the information need to be disclosed (cont'd)

## Unsubstantiated statements

- “The Company has accumulated a loyal customer base”
  - the listing document did not define loyalty or describe how it is measured
- “The Company is a vertically integrated [business nature] company in [location] ”
  - the company purchased raw materials from an associated company (not a company within the Group)



## 1. Does the information need to be disclosed (cont'd)

### Unsubstantiated statements

- *“The Company has developed or commercialized numerous [products] and has a strong track record of bringing new [products] to the market”*
  - the company had launched less than 10 [products] during the track record period. The examples of [products] developed also do not appear substantively innovative, such as different product packaging
- The company has an *“extensive supply network”* and a *“flexible supply network”*
  - as the top five suppliers accounted for over 75% of the company’s total purchases, its supply network was concentrated rather than extensive
  - unclear how a supply network can be flexible



# 1. Does the information need to be disclosed (cont'd)

## Unsubstantiated statements

- *“While our Group operates in a highly competitive space, it does a good job distinguishing itself against other competitors”*
  - the basis for this statement is not provided in the listing document
- The company claimed that its *“worldwide presence provides advantages...”*
  - however, it had less than 30 employees who were based in two countries
- *“We believe our success is attributable to our integrated and recyclable business model ...”*
  - what is a “*recyclable*” business model





## 1. Does the information need to be disclosed (cont'd)

### Is the information relevant and material

- Immaterial non-compliances
  - refer to Guidance Letter HKEX-GL63-13 – disclosure of immaterial non-compliance is NOT required
  - late Companies Registry filing/ tax filing/ tax payment with immaterial impact (i.e. no material financial or operational impact on the listing applicant, and not reflect negatively on the listing applicant's directors or senior management ability or tendency to operate in a compliant manner)
  - no profit and loss account and balance sheet were laid before the company at its AGM
  - no social security fund contribution
- *“our Directors consider that the non-compliance events disclosed above will not have any material adverse impact on the operations or financial position or business of our Group”*



## 1. Does the information need to be disclosed (cont'd)

Is it required by a specific requirement under applicable laws and regulations or the Listing Rules

- Specific requirements on contents of listing documents set out in:
  - the Listing Rules
  - the Companies (Winding Up and Miscellaneous Provisions) Ordinance



# 1. Does the information need to be disclosed (cont'd)

## Is the information specific to the business of the applicant

- Generic business strategies not specific to the listing applicant
  - *“we intend to conduct overseas business development and engage in overseas construction and infrastructure projects more actively as additional outbound investment and business activities are contemplated in line with the Belt and Road Initiative (一帶一路) announced by the PRC Government”*
  - applicant should consider the following information:
    - country/ region where it intends to expand and the relevant time frame
    - types of construction and infrastructure projects which it will focus on
    - whether it has the capacity, licenses and qualifications to undertake overseas projects



# 1. Does the information need to be disclosed (cont'd)

## Is the information specific to the business of the applicant

- Relevance of the “Industry Overview” section
  - “Industry Overview” section should give investors information specific to the Company’s business segments within the industry
  - for example, a history of the Hong Kong stock market (e.g. how the Stock Exchange was formed in 1986) and overall development of Hong Kong stock market (e.g. ranking of the Stock Exchange by market capitalization and performance of the indices) does not give investors sufficient information to assess a company that predominantly provides securities broking services and margin financing services



# 1. Does the information need to be disclosed (cont'd)

## Is the information specific to the business of the applicant

- Applicant should consider the following information:
  - information on total value of transactions, earnings and numbers of securities brokers and securities margin finance providers in Hong Kong
  - number of active margin clients in Hong Kong
  - amounts receivables from margin clients in Hong Kong



## 1. Does the information need to be disclosed (cont'd)

Has the information been disclosed elsewhere in the listing document

- Repetition of the first paragraph in the “Summary”, “Business” and “Financial Information” sections
  - *“we are a leading [business nature] company in [location]... ”*
- Numerous pages of “Significant accounting policies and critical estimates and judgment” in the “Financial Information” section are copied and pasted from the Accountants’ Report
  - applicants should consider:
    - supplementing and not duplicating information
    - cross-referencing
  - see HKEX-GL59-13



## 2. Simplify the language

Disclosure should read like part of an everyday conversation

- Use everyday language as if speaking directly to the reader
- Use short sentences. Instead of one long sentence to describe a complex issue, break up the description into separate, short sentences
- Replace long phrases with fewer and simpler words that have the same meaning
- Consider whether a retail investor can understand the disclosure. Listing documents should cater for retail investors who have little or no technical knowledge in the applicant's business or industry



## 2. Simplify the language (cont'd)

### Use everyday language

- Use the active voice
  - more engaging and improve readability
  - highlight who the action taker is

Original	Revised
No inferences should be made from the preceding statements to determine our profitability in future.	You should not infer that we will be profitable in future from the preceding statements.
We are engaged in the design and manufacture of furniture.	We design and manufacture furniture.





## 2. Simplify the language (cont'd)

### Use everyday language

Original	Revised
The Offer Price is expected to be fixed by an agreement between our Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date.	Our Company and the Lead Manager (for itself and on behalf of the Underwriters) will determine the Offer Price and sign an agreement on the Price Determination Date.
If our Company fails to rectify the non-compliance within such prescribed time, a fine of HK\$[amount] will be imposed.	If our Company fails to rectify the non-compliance within such prescribed time, [authority A] will impose a fine of HK\$[amount] on our Company.

## 2. Simplify the language (cont'd)

### Use everyday language

Use simple words:

Original	Revised
despatch	send
utilize	use
whilst	while
thereafter	then
despite the fact that	although
due to the fact that/ owing to the fact that/ because of the fact that/ in light of	because/ since
in the event that	if



## 2. Simplify the language (cont'd)

### Use everyday language

Original	Revised
in order to	to
subsequent to	after
prior to	before
including but not limited to	including

- Use “*comprising*” instead of “*including*” when list is exhaustive



## 2. Simplify the language (cont'd)

### Use short sentences

Original	Revised
<p>We are a manufacturer and a supplier of <i>[product A]</i> and <i>[product B]</i> with our manufacturing operations in <i>[location X]</i> and <i>[location Y]</i> and have more than 10 years experience in the industry. We also sell <i>[product C]</i> and <i>[product D]</i>.</p>	<p>We:</p> <ul style="list-style-type: none"><li>(i) manufacture and sell two types of products: <i>[product A]</i> and <i>[product B]</i>; and</li><li>(ii) sell <i>[product C]</i> and <i>[product D]</i>.</li></ul> <p>We manufacture our products in <i>[location X]</i> and <i>[location Y]</i>. We have more than 10 years experience in the industry.</p>



## 2. Simplify the language (cont'd)

### Use short sentences

Original	Revised
<p>The Company has set up its head office in Shanghai, with plans to set up three new integrated stores at prime locations in Shanghai, including a flagship store located in <i>[district A]</i> and two other stores at strategic locations in <i>[district B]</i> and <i>[district C]</i>, which are expected to commence operations by the first half of 2014.</p>	<p>The Company's head office is in Shanghai. The Company plans to set up three new stores at prime locations in Shanghai, comprising:</p> <ul style="list-style-type: none"><li>(i) a flagship store in <i>[district A]</i> ; and</li><li>(ii) two other stores at strategic locations in <i>[district B]</i> and <i>[district C]</i>.</li></ul> <p>We expect these stores to commence operations by the first half of 2014.</p>



### 3. Avoid using defined term or technical jargon

Defined terms make information harder to understand because the reader may have to stop mid-sentence to check their meaning

- Avoid using a defined term or technical jargon when the disclosure can be explained using plain language. When a defined term or technical jargon is necessary, try to explain them in plain language
- Use a defined term consistently throughout the listing document
- Ensure that all defined terms are set out in the “Definitions” or “Glossary” sections



### 3. Avoid using defined term or technical jargon (cont'd)

Issues	Original	Revised
<i>Legal jargon</i>	The Offer Shares will be ordinary shares in the share capital of our Company and will rank <u>pari passu</u> in all respects with all Shares in issue or to be issued as set out in this listing document.	The Offer Shares will be ordinary shares in the share capital of our Company and will <u>carry the same rights</u> as all Shares in issue or to be issued as set out in this listing document.
<i>Technical terms</i>	We have entered into a <u>revolving credit facility</u> in the amount of HK\$50 million with <i>[bank A]</i> which is secured by a <u>lien</u> on all of the assets of the Company.	We have obtained a <u>credit line</u> from <i>[bank A]</i> that allows us to borrow up to HK\$50 million from time to time. Loans that we obtain from this credit line are secured by all of our assets and <i>[bank A]</i> will have <u>the right to retain our assets until we have repaid our loans.</u>



### 3. Avoid using defined term or technical jargon (cont'd)

- Unnecessary definition
  - “*electricity*” (a force caused by electrical charge)
  - “*steam*” (water in the gas phase, generated when water boils)
- Circular definition
  - “*active clients*” (clients holding non-dormant accounts) while “*dormant*” is not defined so there is no clarity on how recently a client transacted is considered “*active*”





## 4. Simplify the layout

Organize disclosure in the listing document in a logical manner

- Use a simple design and layout, and choose a font and type size that is easy to read. The same font and type size should be used throughout the listing document (including in the “Summary” section). Avoid using all upper-case characters
  - font size of 10pt -12pt is generally appropriate
  - line spacing should not be less than 2 points
- Start with the big picture; describe the applicant’s business generally before describing detailed features of the business. Group related information
- Present information logically and focus on information that is material for investors to make an informed investment decision



## 4. Simplify the layout (cont'd)

- Use descriptive headers and sub-headers to break up information into small digestible parts. If possible, number headers and sub-headers for easy cross reference
- Use tables, bullets and flowcharts to help present information. For example, figures such as revenue contribution by business segment during the track record period may be more easily understood if presented in a table than in words

Even when using plain language, many applicants have complex businesses which require extensive disclosure. Organizing disclosure in each section logically becomes key to preparing a useful listing document



## 4. Simplify the layout (cont'd)

### Use descriptive headers and sub-headers

#### Original

Decrease in our revenue from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T] was primarily attributable to a decrease in sales to a [country A] customer from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T] due to our decision to cease our business relationship with such [country A] customer in early [year T], after considering its increasing credit risk resulting from the abrupt devaluation of [currency A] and economic instability in [country A]. During the two years ended [year T], sales to this [country A] customer amounted to approximately HK\$[ ] million and HK\$[ ] million respectively whilst gross profit generated from sales to this customer amounted to approximately HK\$[ ] million and HK\$[ ] respectively. Our Directors believe that had our Group continued our business relationship with this [country A] customer, our Group might be exposed to further risks considering (i) the deterioration of the [country A] economy since [year T] as, according to [industry research consultant], the nominal GDP of [country A] had declined from approximately USD[ ] trillion in [year T-1] to approximately USD[ ] trillion in [year T] with further forecasted decrease to approximately USD[ ] trillion in [year T+1]; and (ii) [country A] having been sanctioned by the [country B] government, the [country C] and the [country D] government since [year T]. The decrease in sales was partially offset by an increase of approximately HK\$[ ] million in revenue from sales of our [product A] to customers with shipment destinations in [country D], [country E], [country F], [country G] and [country B], being developed countries in which we strategically focused on expanding our sales to international branded customers and diversifying our customer base. Our costs of sales decreased from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T], which was mainly attributable to (i) decrease in purchase costs from our [product A] suppliers of approximately HK\$[ ] million which was in line with the decrease in our revenue; (ii) decrease in staff and other costs of approximately HK\$[ ] million mainly due to dismissal of our staff engaged in sample making as we intended to outsource such process to Independent Third Parties; and (iii) decrease in other costs of approximately HK\$[ ] million primarily attributable to a reduction in (a) sample and molding fees as part of such costs were borne by certain [product A] suppliers in view of our established business relationship; and (b) other overhead as a result of our cost control measures. As a result of the foregoing, our gross profit decreased by approximately HK\$[ ] million from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T], while our gross profit margin increased from approximately [ ]% for the [year T-1] to approximately [ ]% for the [year T]. Decrease in profit attributable to the owners of our Company from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T] was primarily due to (i) decrease in gross profit of approximately HK\$[ ] million as stated above; and (ii) increase in non-recurring listing expenses of approximately HK\$[ ] million, partially offset by a decrease in selling and distribution expenses of approximately HK\$[ ] million mainly resulting from (a) a decrease in commissions paid for business development; and (b) decrease in entertainment and travelling expenses as a result of our cost control measures.

#### Revised

##### *[Year T] compared with [year T-1]*

##### *Revenue*

Decrease in our revenue from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T] was primarily attributable to a decrease in sales to a [country A] customer from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T] due to our decision to cease our business relationship with such [country A] customer in early [year T], after considering its increasing credit risk resulting from the abrupt devaluation of [currency A] and economic instability in [country A]. During the two years ended [year T], sales to this [country A] customer amounted to approximately HK\$[ ] million and HK\$[ ] million respectively whilst gross profit generated from sales to this customer amounted to approximately HK\$[ ] million and HK\$[ ] respectively. Our Directors believe that had our Group continued our business relationship with this [country A] customer, our Group might be exposed to further risks considering (i) the deterioration of the [country A] economy since [year T] as, according to [industry research consultant], the nominal GDP of [country A] had declined from approximately USD[ ] trillion in [year T-1] to approximately USD[ ] trillion in [year T] with further forecasted decrease to approximately USD[ ] trillion in [year T+1]; and (ii) [country A] having been sanctioned by the [country B] government, the [country C] and the [country D] government since [year T]. The decrease in sales was partially offset by an increase of approximately HK\$[ ] million in revenue from sales of our [product A] to customers with shipment destinations in [country D], [country E], [country F], [country G] and [country B], being developed countries in which we strategically focused on expanding our sales to international branded customers and diversifying our customer base.

##### *Cost of sales*

Our costs of sales decreased from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T], which was mainly attributable to (i) decrease in purchase costs from our [product A] suppliers of approximately HK\$[ ] million which was in line with the decrease in our revenue; (ii) decrease in staff and other costs of approximately HK\$[ ] million mainly due to dismissal of our staff engaged in sample making as we intended to outsource such process to Independent Third Parties; and (iii) decrease in other costs of approximately HK\$[ ] million primarily attributable to a reduction in (a) sample and molding fees as part of such costs were borne by certain [product A] suppliers in view of our established business relationship; and (b) other overhead as a result of our cost control measures.

##### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by approximately HK\$[ ] million from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T], while our gross profit margin increased from approximately [ ]% for the [year T-1] to approximately [ ]% for the [year T].



## 4. Simplify the layout (cont'd)

### Use descriptive headers and sub-headers

#### Original

Our revenue increased from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1], which was mainly due to the increase in our sales of formal [product A] for men and children, partially offset by a slight decrease in sales for casual [product A] for women and children resulting primarily from the product mix of orders from our customers during the period. Our cost of sales increased from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1], which was principally attributable to (i) increase in purchase costs from our [product A] suppliers of approximately HK\$[ ] million which was in line with the increase in our sales for the period; and (ii) decrease in other costs of approximately HK\$[ ] million primarily related to part of the sample and molding fees being borne by certain [product A] suppliers in view of our established business relationship. As a result of the foregoing, our gross profit increased from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1], and our gross profit margin increased slightly from approximately [ ]% for the [stub period T] to approximately [ ]% for the [stub period T+1]. Decrease in profit attributable to owners of our Company from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1] was mainly due to (i) incurrence of non-recurring listing expenses of approximately HK\$[ ] million; (ii) increase in selling and distribution expenses of approximately HK\$[ ] million which was mainly attributable to (a) increase in staff costs relating to the appointment of [Mr. X], who is primarily responsible for, among others, the sales activities of our Group; and (b) increase in freight and insurance charges in respect of sales under CIF terms; and (iii) increase in administrative expenses of approximately HK\$[ ] million which was principally due to (a) increased staff costs relating to newly recruited staff in our finance department during the [stub period T+1]; and (b) increase in consultancy fees for accounting and secretarial services, partially offset by the increase in gross profit of approximately HK\$[ ] million as stated above.

#### Revised

##### *Profit attributable to owners of our Company*

Decrease in profit attributable to the owners of our Company from approximately HK\$[ ] million for the [year T-1] to approximately HK\$[ ] million for the [year T] was primarily due to (i) decrease in gross profit of approximately HK\$[ ] million as stated above; and (ii) increase in non-recurring listing expenses of approximately HK\$[ ] million, partially offset by a decrease in selling and distribution expenses of approximately HK\$[ ] million mainly resulting from (a) a decrease in commissions paid for business development; and (b) decrease in entertainment and travelling expenses as a result of our cost control measures.

##### *[Stub period T+1] compared with [stub period T]*

##### *Revenue*

Our revenue increased from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1], which was mainly due to the increase in our sales of formal [product A] for men and children, partially offset by a slight decrease in sales for casual [product A] for women and children resulting primarily from the product mix of orders from our customers during the period.

##### *Cost of sales*

Our cost of sales increased from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1], which was principally attributable to (i) increase in purchase costs from our [product A] suppliers of approximately HK\$[ ] million which was in line with the increase in our sales for the period; and (ii) decrease in other costs of approximately HK\$[ ] million primarily related to part of the sample and molding fees being borne by certain [product A] suppliers in view of our established business relationship.

##### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1], and our gross profit margin increased slightly from approximately [ ]% for the [stub period T] to approximately [ ]% for the [stub period T+1].

##### *Profit attributable to owners of our Company*

Decrease in profit attributable to owners of our Company from approximately HK\$[ ] million for the [stub period T] to approximately HK\$[ ] million for the [stub period T+1] was mainly due to (i) incurrence of non-recurring listing expenses of approximately HK\$[ ] million; (ii) increase in selling and distribution expenses of approximately HK\$[ ] million which was mainly attributable to (a)

## 4. Simplify the layout (cont'd)

Use descriptive headers and sub-headers

### Original

### Revised

increase in staff costs relating to the appointment of [Mr. X], who is primarily responsible for, among others, the sales activities of our Group; and (b) increase in freight and insurance charges in respect of sales under CIF terms; and (iii) increase in administrative expenses of approximately HK\$[ ] million which was principally due to (a) increased staff costs relating to newly recruited staff in our finance department during the [stub period T+1]; and (b) increase in consultancy fees for accounting and secretarial services, partially offset by the increase in gross profit of approximately HK\$[ ] million as stated above.



#### 4. Simplify the layout (cont'd)

Use descriptive headers and sub-headers

Original	Revised
<p>Explanation of fluctuations in line items of income statement during track record period in two long paragraphs with <u>20-40 lines per paragraph without headers or sub-headers</u></p>	<p>The two paragraphs were broken down into eight <u>small paragraphs</u> with appropriate <u>headers and sub-headers</u></p>



# 4. Consolidated Guidance



## Consolidated Guidance

- Consolidate all relevant guidance letters on disclosures in listing documents for practitioners' convenience
- The changes in the Consolidated Guidance are limited to:
  - modifying or deleting certain overly specific content guidance which is only relevant in a limited number of cases

for example, the specific content guidance for product returns and warranty, and industry standards (e.g. International Organization for Standardization (ISO)), which does not apply to all listing applicants and has been modified and deleted, respectively

- removing any repetition after consolidating the various guidance letters on disclosure in listing documents (all available on the Exchange's website and most are included under the title "Simplification Series")





## Consolidated Guidance (cont'd)

- updating the guidance based on the Exchange's most recent experience

for example, in respect of listing applicants in the banking and securities sectors, we have updated the content guidance so that the following financial information/ ratios are to be disclosed in the "Summary" section of a listing document:

- in respect of the banking sector, net interest spread, net interest margin, capital adequacy ratio, non-performing loan ratio and loan to deposit ratio
- in respect of the securities sector, the amount of securities underwritten, average commission rate, trading volumes, average rate of return, asset under management and balances of margin financing and securities lending

For marked-up version of the guidance letters included in the Consolidated Guidance, see:

[http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/guidepsld/psld\\_index.htm](http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/guidepsld/psld_index.htm)

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# 5. Specimen Sections and Sample Constitutional Documents



## Specimen Sections and Sample Constitutional Documents

- We have seen sections which are more lengthy than others but they should be capable of being the same or very similar
- Sample “Summary of the Constitution of the Company and the Laws of Place of Incorporation” sections of listing documents for applicants incorporated in Bermuda, the Cayman Islands and the PRC
- The corresponding sample constitutional documents for the applicants
  - these are based on legal advice as at 2 February 2016 and are **EXAMPLES ONLY**
  - the Exchange will **NOT** update these to reflect changes in law, and will only do so if the Exchange is notified of the changes
  - applicants should always seek legal advice before adopting these or incorporating them into listing documents



# 6. Practical Suggestions



## Practical suggestions

- Get the entire working group's support at kick-off
- Keep asking yourself – Is the information relevant and material to the applicant? Can we use simpler language to deliver the information
- Avoid copying precedents, only refer to them
- Avoid repetitive and excessively long disclosure or sentences
- Make use of visual aids, headers/ sub-headers, flowcharts and cross-referencing
- Use a lead editor
- Step back and review



# 7. Q&A



# Thank you

