

[Streamlined and incorporated into the Guide for New Listing Applicants in January 2024]

Subject	Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications
Listing Rules and Regulations	Main Board Rules 2.03(2) and 2.13 GEM Rules 2.06(2) and 14.26
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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. Introduction

General principle of the Listing Rules

- 1.1 One of the general principles of the Listing Rules is that potential investors are given sufficient information to enable them to make a properly informed assessment of an applicant (Main Board Rule 2.03(2), GEM Rule 2.06(2)).
- 1.2 A key Listing Rule requirement in support of this general principle is that information contained in a listing document must be clearly presented and in plain language format (Main Board Rule 2.13, GEM Rule 14.26).

Concerns over the length and complexity of Hong Kong listing documents

- 1.3 The SFC and the Exchange have previously published guidance to help applicants and their advisers produce listing documents that are clearly presented and in plain language. For example, the SFC published a “How to create a clear prospectus” guide in January 1998, and the Exchange has published a number of guidance letters on disclosure in listing documents, mostly included under the title “Simplification Series” from 2011 to 2014.
- 1.4 Nevertheless, the Exchange is concerned that many Hong Kong listing documents may not be fulfilling the general principle referred to in paragraph 1.1 above. Hong Kong listing documents are often overly long and complex. Together with the use of legalistic and technical jargon, Hong Kong listing documents have become harder to understand (e.g. poor explanation of business model) and important information may be buried inside the document rather than highlighted upfront. This concern is heightened in Hong Kong due to high levels of participation by retail investors in IPOs.

Purpose of publishing this Guide

1.5 The Exchange believes a new guide which consolidates and updates guidance on this topic will be helpful to applicants and their advisers. A new guide also reinforces the importance which the Exchange attaches to listing documents being clear, concise and in plain language.

1.6 The objectives of this Guide include:-

- assisting applicants and their advisers to produce listing documents which fulfil the general principle referred to in paragraph 1.1 above;
- providing guidance on what information the Exchange typically expects to be included in different sections of a listing document; and
- improving investors' ability to find and understand information in listing documents necessary to make properly informed assessments of applicants.

1.7 This Guide does not:-

- prescribe a "one size fits all" formula in preparing listing documents. For example, there may be applicants in industries/ sectors which require specific disclosure; and
- identify a checklist of information which must or must not be disclosed, in order for applicants to satisfy listing document content requirements under applicable laws and regulations, the Listing Rules and guidance letters, including Main Board Rules 9.03(3) and 11.07, GEM Rules 12.09 and 14.08(7), and Guidance Letter HKEX-GL56-13.

1.8 Similar to previous guidance letters, the Exchange expects applicants to follow the guidance herein when preparing listing documents.

2. Structure of this Guide

2.1 This Guide is divided into four parts.

- (a) Section 3 sets out guidance on producing a clear and concise listing document;
- (b) Section 4 and Appendix 1 set out a consolidated and updated version of a number of the Exchange's previous guidance letters on disclosure in listing documents, mostly included under the title "Simplification Series"; ***(Updated in May 2016)***
- (c) Section 5 sets out guidance on the disclosure in "Summary of the

Constitution and Laws of Place of Incorporation” sections of listing documents; and **(Updated in January 2022)**; and

- (d) Section 6 sets out the circumstances where suspension of vetting will apply. **(Added in August 2017)**

3. Guidance on producing a clear and concise listing document

3.1 General drafting principles

Taking into account publicly available guides on plain language drafting, including guides prepared by securities regulators and stock exchanges in other jurisdictions on preparing simplified prospectuses and listing documents as well as the Exchange’s own experiences, the Exchange has identified the following four drafting principles.

(a) Does each piece of information in the listing document need to be disclosed?

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

- Is the information relevant and material i.e. its omission or misstatement would affect an investor in making an informed assessment about the applicant?
- Is it included to comply with a specific requirement under applicable laws and regulations or the Listing Rules?
- Is the information specific to the business of the applicant?
- Has the information been disclosed elsewhere in the listing document?

Unnecessary information is often included in a listing document simply because other published listing documents contained 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 information that is important to the investors.

(b) Simplify the language

Disclosure should read like part of an everyday conversation.

- Use everyday language as if you were speaking directly to the reader.

- Use short sentences. Instead of one long sentence to describe a complex issue, break up the description into separate, shorter sentences.
- Replace long phrases with fewer and simpler words that mean the same thing.

Listing documents are often read by retail investors with little or no technical knowledge in the applicant's business or industry. Consider whether such a person can understand the disclosure.

(c) Avoid using defined terms or technical jargon

Defined terms make disclosure harder to understand because the reader has to stop mid-sentence to check their meaning.

- Avoid using a defined term or a technical jargon when the disclosure can be explained using plain language.
- When defined terms or technical jargon are necessary, use terms with plain language meaning which most closely explain their defined meaning. Avoid creating new defined terms which are unique to the listing document.
- Use a defined term consistently throughout the listing document.
- Ensure that all defined terms are set out in the "Definitions" or "Glossary" sections. This helps readers find the meaning to the defined terms.

Defined terms, legal, financial and other technical jargon, by definition, are not plain language. Do not use these terms unless they improve the readability of the disclosure.

(d) Simplify the layout

Organise 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 and Highlights" section). Avoid using all upper-case characters.
- Start with the big picture; describe the applicant's business generally before describing detailed features of the business. Group related information together.

- Present information in a meaningful way to emphasise matters that are of most interests to investors.
- 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 and bullets to help present information. For example, figures such as revenue contribution by business segment during the track record period may be more easily presented in a table than in words.

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

3.2 Practical suggestions for the drafting process

Set out below are some practical suggestions for the drafting process.

- Use a lead writer/ editor: A lead writer/ editor should be responsible for the quality of the listing document as a whole. He is not expected to write the entire document but he should review and, where necessary, amend sections produced by other participants in the IPO process. This helps the listing document to have a logical structure and consistent language usage.
- Avoid copying disclosure: Disclosure from other listing documents (e.g. risk factors) is often not material or not relevant to an applicant or its securities. It is acceptable to take ideas from other listing documents, but you should separately draft disclosure that is specific to an applicant's business.
- Tabulate financial information: Much of the financial information disclosed in a listing document can be presented in table form; it makes comparison between different periods in the track record period easier.
- Cross reference: Applicants should cross reference other relevant sections in the listing documents to provide more details on the subject matter and to avoid duplication. For example, the Accountants' Report contains a lot of useful information, such as year-to-year revenue and expense breakdowns, and critical accounting policies which impact an applicant's financial results. Cross reference the relevant page of the Accountants' Report instead of repeating the information in other parts of the listing document.
- Summaries of material agreements: Summarise material agreements by describing key provisions in plain language. These documents are

available to investors for inspection so there is no need to include the full text of key provisions in the listing document.

- Summaries of Listing Rules, legislation or other regulations: Describe in plain language how the Listing Rules, legislation or other regulations apply to an applicant. Investors who want to read the actual provisions of the Listing Rules, legislation or other regulations can look them up directly.
- Avoid marketing language: Avoid statements that are included solely for “marketing” purposes. Listing documents should not be used as a marketing document. The Exchange will require removal of statements which do not give a fair, unbiased, balanced and factually supported view of an applicant’s business. For example, the Listing Committee had previously requested an applicant to remove a reference that it was the “*largest domestic fashion sportswear brand by revenue*” on the basis the fashion sportswear market was itself a relatively small segment of the retail clothing market and a hybrid of the sportswear market. The statement may give a misleading impression on the size of the applicant.
- Step back and review: After a draft listing document is prepared, step back and review it. Consider whether any information can be removed, summarised, or structured in a way to emphasise more on matters important to investors.

4. Guidance on disclosure in specific sections of a listing document

4.1 Set out in Appendix 1 is a consolidation of a number of the Exchange’s previous guidance letters on disclosure in listing documents, mostly included under the title “Simplification Series”, updated with recent examples. It provides specific guidance on what information the Exchange expects in each section of a listing document. The guidance has been divided and ordered into sections as they typically appear in a listing document, as follows:

- A. “Summary and Highlights” section (superseded HKEX-GL27-12)
- B. “Risk Factors” section (superseded HKEX-GL54-13)
- C. “Industry Overview” section (superseded HKEX-GL48-13)
- D. “History and Development” section (superseded HKEX-GL49-13)
- E. “Business” section (superseded HKEX-GL-50-13)
- F. “Financial Information” or “Management discussion and analysis on the historical financial information (MD&A)” section (superseded HKEXGL5913)

- G. “Applicable laws and Regulations” section (superseded HKEX-GL72-14)
 - H. “Directors, Supervisors and Senior Management” section (superseded HKEX-GL62-13)
 - I. “Use of Proceeds” section (superseded HKEX-GL33-12)
 - J. “How to Apply for Hong Kong Offer Shares” section (superseded HKEX-GL64-13). ***(Updated in November 2023)***
- 4.2 As a result of the consolidation in Appendix 1, the above standalone guidance letters have been withdrawn (see Frequently Asked Questions 003-2016). ***(Updated in May 2016)***
- 4.3 Set out in Appendix 2 is a list of certain other guidance letters published by the Exchange on disclosure in listing documents. These remain in full force and effect.
- 5. “Summary of the Constitution and Laws of Place of Incorporation” sections of listing documents**
- 5.1 The Exchange noted that the “Summary of the Constitution and Laws of Place of Incorporation” section of many published listing documents on average were lengthy. At the same time, the Exchange recognized that this section should be capable of being the same or very similar for most applicants from the same jurisdiction.
- 5.2 ***(Deleted in January 2022)***
- 5.3 ***(Deleted in January 2022)***
- 5.4 ***(Deleted in January 2022)***
- 5.5 It should be noted that with the implementation of the new listing regime for overseas issuers from 1 January 2022, an issuer must demonstrate how the domestic laws, rules and regulations to which it is subject and its constitutional documents, in combination, provide the shareholder protection standards (“**Core Standards**”) set out in Appendix 3 of the Main Board Rules (Appendix 3 of GEM Rule). For this purpose, the issuer shall amend its constitutional documents to provide them. ***(Updated in January 2022)***

6. Suspension of vetting (*Added in August 2017*)

- 6.1 With the aim of promoting more succinct listing documents focused on material information, the Exchange had adopted a recommended 10 page limit for each of the “Summary and Highlights” (see section A below) section in January 2012 and “Industry Overview” (see section C below) section in January 2013. To further promote more succinct listing documents, the Exchange has extended its guidance in this respect and adopted a recommended 20 page limit for each of the “History and Development” (see section D below) and “Applicable Laws and Regulations” (see section G below) sections.
- 6.2 As stated in paragraph 1.2 above, the Listing Rules require information contained in a listing document to be clearly presented and in plain language format (Main Board Rule 2.13, GEM Rule 14.26). This guidance letter is published to assist applicants and their advisers to produce listing documents in compliance with this requirement. To encourage compliance with this guidance letter, the Exchange may exercise its discretion to suspend vetting if:
- the listing document does not comply with any of the recommended page limits for the “Summary and Highlights”, “Industry Overview”, “History and Development” and “Applicable Laws and Regulations” sections; or
 - information in the “Summary and Highlights” section (i) is almost entirely copied-and-pasted from other sections; or (ii) does not contain explanation of material fluctuation of key financial data.
- 6.3 Listing applicants will be requested to redraft relevant sections of the listing document to fully comply with this guidance letter before the Exchange will continue to vet. Suspension of vetting is not a return or rejection of the application, so there is no need to upload the revised Application Proof onto the website of the Exchange and the initial listing fee will not be forfeited.

A. “Summary and Highlights” section

1. Listing Rules

- Main Board Rules 2.13 and 11.07
- GEM Rules 14.08 (7) and 17.56

2. Related publications

- Frequently Asked Questions Series 23
- HKEX-GL98-18 – Guidance on disclosure in listing documents — listing applicants' names; statistics and data quoted; listing document covers; non-disclosure of confidential information; and material changes after trading record period

(Updated in November 2023)

3. General 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 It is not appropriate for the “Summary and Highlights” section to include paragraphs that have been copied from elsewhere in the listing document. The text in this section should be a high level overview drafted specifically for this purpose.
- 3.3 The “Summary and Highlights” section should generally be no more than 10 pages, although the actual length will depend on the nature and complexity of an applicant, its business and the offering.

4. List of information that might be included in the “Summary and Highlights” section

- 4.1 Set out below is the information we would typically expect to be included in the “Summary and Highlights” section.

Key areas	Purposes	Disclosure recommendations
Business model	Provide information on an applicant’s current principal business activities (including any change in the business focus during and after the track record period), and how such activities generate revenue	<ul style="list-style-type: none">• proper explanation and clarity on applicant’s business model• current principal business activities (consider using a flow diagram to describe the applicant’s business model)• pricing model• any unique features of the applicant’s industry (e.g. government grants,

Key areas	Purposes	Disclosure recommendations
		incentives, revenue recognition policies) • major development milestones, mergers and acquisitions
	Provide information on major stakeholders - an applicant's business may be significantly influenced by its major stakeholders and their relationships with the applicant	• major customers and distributors, suppliers, contract manufacturers and providers of finance, etc., and their relationships with the applicant or its shareholders • sales/ distribution channels • any material transactions which are not on normal commercial terms
	Provide information on an applicant's market position within the industry - to help investors assess the competitive landscape of an applicant's business	• market share/ ranking data of key market players and the applicant
	Provide a summary of an applicant's competitive strengths and business strategies - to help investors understand how the applicant differentiates itself from its competitors	• if unique to the applicant, list any key competitive strengths and business strategies • if not self-explanatory, include a brief explanation of the competitive strength or business strategy <u>Do not include:</u> • marketing statements
Shareholder information	Provide information on shareholders and investors that may control or have an influence on an applicant: - to help investors assess any key business relationships between shareholders, investors and the applicant, business competition and reliance	• identities of controlling shareholders and pre-IPO investors; competition and key business relationships with controlling shareholders (e.g. key connected transactions) • 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
Key operational and financial data	Provide a brief overview of key financial information/ ratios which are particularly relevant to understanding the applicant's financial condition and results of operations during the track record period	• financial and operational data should preferably be limited to one page • listing applicants which recorded net liabilities during the track record period as a result of significant fair value change of convertible financial instruments and will turn into a net

Key areas	Purposes	Disclosure recommendations
		<p>assets position upon listing due to full conversion of such instruments, and should make relevant disclosure in the “Risk Factors” section, if applicable <i>(Updated in April 2020)</i></p> <ul style="list-style-type: none"> • in relation to the banking sector, net interest spread, net interest margin, capital adequacy ratio, nonperforming loan ratio, and loan-to-deposit ratio should be included • in relation to the securities sector, amount of securities underwritten, average commission rates, trading volume, average rate of return, assets under management, and balances of margin financing and securities lending should be included • any significant non-recurring items, or significant items which are not incurred in the ordinary and usual course of the applicant’s business should be highlighted

Key areas	Purposes	Disclosure recommendations
Recent developments	Provide an update on an applicant's operations and financial position since the latest audited financial period	<ul style="list-style-type: none"> • where there have been material changes, a qualitative 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) • an applicant should disclose qualitative or quantitative information with commentary relating to its financial condition and results of operations since the latest audited financial period, including by reference to the key financial information/ ratios referred to above.¹ The disclosure must enable investors to have a sense of materiality of the recent developments • 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 this information has been reviewed by the reporting accountants • The disclosure of comparative financial information to the non-profit forecast financial information is not compulsory. If an applicant discloses such information in its listing document, this should at least be reviewed by the applicant's sponsor

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".

		<ul style="list-style-type: none"> An applicant with material changes in its financial, operational and/ or trading position after the trading record period should refer to Guidance Letter HKEX-GL98-18 for the additional disclosure (Updated in November 2023)
Key areas	Purposes	Disclosure recommendations
Listing expenses	Enable investors to assess the impact of listing expenses on an applicant's financial performance	<ul style="list-style-type: none"> total amount of listing expenses relating to the offer (including underwriting commission), and the accounting treatment of such expenses (e.g. charged to the income statement or as equity, and the relevant time periods)
Future plans and prospects	Provide investors with an idea of an applicant's future plans and prospects	breakdown of the use of proceeds for various future plans and the expected timing of the use of proceeds in bullet or table form, with cross references to details in the "Use of Proceeds" section
	Information on an applicant's historical significant distributions and expected dividend payout ratio to enable investors to assess its dividend payout trend and intentions	<ul style="list-style-type: none"> expected dividend pay-out ratio, significant distributions and material matters that should be drawn to investors' attention where future dividends are subject to discretion of the Board, disclose factors to be considered and where there is currently no intent to pay any dividends, specially state that the company does not have any dividend policy <p><u>Do not include:</u></p> <ul style="list-style-type: none"> detailed description of dividend policy

<p>Offer related information and Profit Forecast</p>	<p>Key information for investors who wish to subscribe for an applicant's shares</p>	<ul style="list-style-type: none"> • 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 • where a full-year profit forecast is included, the forecast P/E ratio (or other meaningful financial ratio derived from the profit forecast) • 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
<p>Key areas</p>	<p>Purposes</p>	<p>Disclosure recommendations</p>
<p>Other information</p>	<p>Highlights of any other significant matters or issues affecting an applicant or the offering.</p>	<p>For example:</p> <ul style="list-style-type: none"> • material non-compliances, litigation and other material events (e.g. product recalls) • a description of the most material risks to an applicant • non-standard waivers granted (e.g. a waiver of a continuing connected transaction that has a term of more than 3 years) • for property companies – a list of projects and their status (e.g. gross floor area sold, available for sale, yet to be developed, and the timeline for development) • 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 of unusual laws and regulations, etc.

B. “Risk Factors” section

1. Listing Rules

- Main Board Rules 2.03(2), 2.13(2), 11.07 and 19A.42
- GEM Rules 2.06(2), 14.08(7), 14.22 and 17.56(2), and Paragraph 67 of Part A of Appendix 1

2. Related publications

- None

3. General guidance

3.1 The “Risk Factors” section should include all the material risks associated with investing in an applicant and its securities. It should explain why these risks are material from investors’ perspective.

Risks should be relevant to listing applicants

3.2 The section should only present risks that are relevant to the particular applicant.

3.3 Each risk factor should be described in context so that investors can understand the nature of, or circumstances giving rise to, the risk or uncertainty as it affects the applicant, its operations and securities, or the offering.

3.4 If standardised language is used in a risk factor, it is important to ensure that the particular circumstances of the applicant do not require modification of that language.

Make quantitative disclosure and focus on the risks, but not the background information

3.5 The section should focus on explaining the nature and extent of the risks. If possible and meaningful, this should be in the form of quantitative disclosure of the likely impact of the risks to allow investors to assess the magnitude and impact on the applicants’ business operations and financial position. If the likely impact cannot be ascertained, disclose the maximum quantitative impact, if possible.

3.6 The risk factor should avoid unnecessary factual background and should only provide enough detail to place the risk in context. More detailed discussion of the background information may be included in other parts of the listing document and only cross-referenced in the risk factors.

Identify risks individually, but avoid repetition and overlapping

- 3.7 Each risk factor should focus on disclosing a single, specific principal risk and should avoid bundling together disclosure on multiple risks.
- 3.8 Avoid multiple risk factors that address the same principal risk.

Risks are matters that applicants are unable to mitigate adequately and that would have significant effects on the applicants if they occur

- 3.9 Risk factor disclosure should relate to risks that applicants are unable to mitigate adequately. Where an applicant is capable of mitigating the risk, do not include a risk factor just because the applicant may not carry out the mitigation adequately. For example, it is not appropriate to include an applicant's possible failure to comply with legal requirements as a risk factor because applicants are expected to be law-abiding and rule compliant, unless there is a genuine and specific reason that gives rise to this uncertainty to comply.
- 3.10 Risk factor disclosure should not be confined to risks that are considered to be reasonably likely to occur. If the occurrence of a particular risk would have a significant effect on the applicant, the applicant should disclose that particular risk even if it has a low probability of occurring.
- 3.11 For example, an applicant relied on three suppliers which accounted for over 95% of its total cost of sales and services. However, the applicant did not believe this gave rise to material risks because of its long-standing relationships with the suppliers, as well as long-term supply agreements that had been entered into. Nevertheless, as the disruption to the applicant would be significant if it lost any one of these suppliers, a risk factor was included with respect to this risk.

Appropriate headings and sub-headings

- 3.12 Related risk factor disclosure should be grouped together, adopting appropriate and meaningful headings and sub-headings. As a guide, headings may include "risks relating to the applicant", "risks relating to the applicant's business", "risks relating to the applicant's industry" and "other relevant risks" (e.g. "any social, economic or political risks relating to countries where the applicant has substantial operations", and "risks that are specific to the securities"), etc.
- 3.13 The sub-headings should not be too vague and generic, and should succinctly outline or reflect the risk that follows in the text as a result of certain facts/uncertainties about the applicant. This means the headings need to say what the risk is and not merely disclose the facts or circumstances that give rise to the existence of the risk. For example, "*Reliance on major customers*" merely states a fact, whereas "*Reliance on our top five customers which accounted for 75% of our revenue*" describes the risk.

Order from the most to least material

- 3.14 As a general principle, applicants should seek to set out risk factors in an order that reflects their relative significance. Within each category of risk factors, applicants should similarly seek to present the risk factors in an order from the most to least material. However, ordering will always require the making of subjective judgments as to the magnitude of each risk (both in terms of likelihood of occurrence and in terms of consequences if it does). Accordingly it is the sole responsibility of the applicant to determine the appropriate ordering having due regard to this general principle.

No mitigating facts

- 3.15 Mitigating facts should not be included in the description of a risk factor as they may divert investors' attention from the magnitude and impact of the risks. Mitigating factors may however be included in other sections of the listing document to give a better assessment of the risk and how the applicant intends to mitigate it. Cross-referencing the risk factors to relevant disclosure in other sections of the listing document may be appropriate.

Consistent disclosure

- 3.16 The risks included within the "Risk Factors" section should be consistent with the information in other sections of the listing document. A disclosure discussed elsewhere in the listing document that clearly suggests a significant risk or uncertainty to the applicant should be included in the "Risk Factors" section.

Exclude outdated risk factors

- 3.17 The section should exclude risk factors which are outdated and no longer applicable. For example, a new law, when promulgated, may create some uncertainties and risks during the initial implementation stage. However, uncertainties may no longer exist after years of implementation. In this context, a risk factor on uncertainties of the law is unlikely to be relevant and so should not be included in the section.

Avoid disclaimer statements that lack specificity

- 3.18 The purpose of the risk factor disclosure is to provide meaningful cautionary statements. The same result cannot be achieved by using disclaimers that merely say that there may be undisclosed risks, for example, "the section is not complete and there may be risks that the applicant does not consider material at the date of listing document may become material in future" and "there may be risks that we have not yet identified at present". Accordingly the use of statements of this nature should be avoided.

C. “Industry Overview” section

1. Listing Rules

- Main Board Rules 2.13(2) and 11.07
- GEM Rules 14.08 (7) and 17.56(2)

2. Related publications

- HKEX-GL8-09 – Statistics and data quoted in prospectuses

3. General guidance

3.1 Whilst not required, applicants usually include an “Industry Overview” section in their listing documents.

3.2 The “Industry Overview” section normally contains, among other things, statistics and data extracted from commissioned research reports and/ or official public documents. The sources and reliability of these statistics and data are not always disclosed prominently and at times this section may discuss only general information which is not relevant to an applicant’s business and industry, and is out-of-date. We recommend that this section provides investors with up-to-date and concise information specific to an applicant’s business and industry, and only to the extent it affects an applicant’s business model and the investor’s investment decision.

No extraneous information and be succinct

3.3 The section should be as short as possible. It should not include general information which is irrelevant or unlikely to affect an applicant’s business, or simply disclose the information without explaining the linkage to an applicant. Extraneous information makes the section unnecessarily lengthy and distracts investors’ attention. This section should generally be no more than 10 pages, although its actual length will depend on the nature and complexity of each case.

3.4 For example:

- It is neither relevant nor material information to investors for an applicant engaged in sales of consumer products in PRC, USA and Europe to provide pages of global economic trend data, or gross domestic product or consumer price index data (past and forecast) in these countries. Such data, if presented, must specifically relate to the applicant’s business, as opposed to any company which sells to these markets.
- An applicant engaged in property development with 95% of its projects in the PRC and 5% in Hong Kong having no immediate plan to expand

in the Hong Kong market should not include a lengthy discussion of the prospects and trends in the Hong Kong property market.

- An applicant engaged in manufacturing with sales focused in European countries and purchases from PRC suppliers may face significant foreign currency risk. Merely including information on the historical exchange rate of Euro and RMB in this section is not helpful to investors. Relevant information on the trend of the fluctuation of Euro and RMB and how it affected and/ or will affect an applicant's sales, cost structure and profit margin should also be provided.

Source and reliability of information

- 3.5 This section should disclose the source of information and whether any research report was commissioned by an applicant or its connected persons/ associates and/ or the sponsor to enable investors to assess the independence and objectivity of the information. The following additional disclosure should be included in the section: (1) the fees paid for commissioned research reports; (2) the business, background and credentials of the research house; (3) the parameters and assumptions used when these data or statistics (including forward-looking data) were collected and analysed; and (4) the basis upon which these data or statistics are considered reliable.

Up-to-date market information

- 3.6 An applicant should ensure that the most up-to-date market information is disclosed. This may include disclosure on the industry maturity and size, and key customers and suppliers and how they are relevant to an applicant's business. As a guide, all historical market information in this section should be for time periods consistent with the applicant's track record period, so that investors can compare the market information with an applicant's financial information in the listing document. If this information is not available, this should be stated.
- 3.7 An applicant's directors should confirm in this section, after making reasonable enquiries, that there is no adverse change in the market information since the date of the commissioned research report which may qualify, contradict or have an impact on the information in the section. For example, in one case an applicant claimed to be one of the leading top 10 producers of household appliances in the PRC. The industry data contained in the commissioned report covered only up to 2011, whereas the track record period extended to the financial year 2012, and there was no supporting data afterwards and as at the latest practicable date. In this case, a directors' confirmation was required.

Fair and balanced presentation of market share and ranking

- 3.8 Where an applicant decides to include in the listing document information on its market share and/ or ranking, the information should be presented in a fair

and balanced way against up-to-date market information and not be overly favourable or misleading.

- 3.9 The disclosure is misleading if an applicant describes itself as a market leader in a particular segment without providing in proper context that such segment is a small subset of the overall industry. For example, it is not appropriate if an applicant describes itself as a market leader in the sportswear segment in certain provinces in the PRC with 70% market share without disclosing the fact that its market share in the overall apparel industry in the PRC is only 5%. Accordingly, this section should disclose information on the applicant's market share and ranking in the whole industry with the support of appropriate independent market or operational data, or that the applicant's leading position only applies to a distinct segment of the whole industry and provide the share of such segment within the industry.

Competitive landscape and competitive advantages

- 3.10 This section should include information on the competitive landscape of an applicant and its major products. For example, the identities and details of the key market players and their respective market share, nature of competition, barriers of entry to the markets, future opportunities, threats and/or challenges to the markets. It should also include the market shares of an applicant's major products.
- 3.11 This section should also substantiate an applicant's competitive advantages both quantitatively and qualitatively with the support of appropriate independent market or operational data. For example, an applicant with a competitive advantage of economies of scale should explain in the section the scale of its operation when compared with its peers quantitatively, and how its scale provides competitive advantage quantitatively and qualitatively.

Historical price trends of raw materials and final products

- 3.12 This section should include, preferably in the form of charts and tables with the same scale and in legible size, the historical prices of an applicant's major raw materials and final products (especially for applicants engaged in the commodities business), and commentary on any material fluctuations. It is also helpful to explain how any changes to its major raw material prices affected the selling prices of its final products historically.

D. “History and Development” section

1. Listing Rules

- Main Board Rules 2.13(2) and 11.07
- GEM Rules 14.08 (7) and 17.56(2)

2. Related publications

- HKEX-LD43-3 – Contractual Arrangements

3. General guidance

3.1 The “History and Development” section should only include material information on an applicant’s establishment, development, corporate structure and shareholding. It is not necessary to disclose each occasion of change in shareholders or shareholding unless such change is material information to an investor’s understanding of the applicant, including its management. This section should generally be no more than 20 pages, although its actual length will depend on the nature and complexity of each case. **(Updated in August 2017)**

3.2 Cross-referencing to relevant disclosure in other sections of the listing documents to avoid duplication of information if necessary.

Disclosure in this section

3.3 This section should usually include the following information:

(a) *Establishment and development of an applicant and its major subsidiaries*

- information on founders (i.e. background and relevant industry experience if the information is not disclosed in the “Directors and Senior Management” section)
- the listing group’s material developments milestones in a tabular form - incorporation and commencement of business of each member of the listing group that made material contribution to the listing group’s track record results

(b) *Corporate structure*

- an applicant’s corporate structure charts, in legible size, before and after major reorganizations and upon completion of the share offer
- the identities and principal business activities of an applicant and its major subsidiaries/ jointly controlled entities

- by way of notes to the corporate structure chart, the identities of the minority shareholders of each non-wholly owned subsidiary and whether they are independent third parties
- where there are many subsidiaries, an explanation for the need for a complex group structure
- the material steps of any reorganization (i.e. incorporation, share swap, disposal and acquisition)
- whether relevant regulatory approvals for reorganizations have been obtained and/ or the reorganization complies with the relevant laws and regulations, with the support of a legal opinion, if applicable
- the date of completion of the registration under Circular No. 37 of PRC State Administration of Foreign Exchange, if applicable²
- reasons for excluding certain companies/ businesses from the listing group if they are in the same or ancillary businesses

(c) Acquisitions, disposals and mergers

- major acquisitions, disposals and mergers (including the basis and amount of consideration involved, settlement date of the consideration, etc.), the reasons for the disposals and their significance to the applicant
- whether each of the acquisitions, disposals and mergers has been properly and legally completed and settled, including all applicable regulatory approvals having been obtained
- the transferor/ transferee's relationship with the applicant, its shareholders or connected persons or that they are independent third parties

(d) Shareholders

- shareholders' identities
- relationship amongst shareholders (e.g. family members, relatives, and parties acting in concert)
- for significant shareholding changes during the track record period, the background of the then shareholders, their relationships with the applicant and its connected persons, reasons for the shareholding transfer, amount, settlement date and basis of consideration involved. The use of tables, charts, diagrams and arrows to ensure clear and concise disclosure is recommended
- details of outstanding options, warrants and convertibles

² Circular No. 37 of the State Administration of Foreign Exchange on issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purposes Vehicle (“国家外汇管理局关于境内居民通过特殊目的公司境外投融资及返程投资外汇管理有关问题的通知”), 4 July 2014. Under Circular No. 37, certain Chinese-controlled overseas companies raising funds overseas to make “round-trip” investments in assets and businesses in China are, in certain circumstances, subject to registration requirements.

(e) *Listing on other exchanges*

- reasons for an applicant to seek a listing on the Exchange
- listing status (e.g. privatized or if delisted, why and when it was delisted)
- compliance record during an applicant's listing on other exchanges and whether there is any matter that should be brought to investors' attention
- where the applicant has been privatized, details of the privatization, including the consideration offered to then shareholders, how the privatization was financed, and, if the privatization offer price and the IPO offer price are materially different, reasons for the difference

E. “Business” section

1. Listing Rules

- Main Board Rules 2.13(2) and 11.07, and Paragraphs 28 to 31 of Part A of Appendix 1, and Appendix 27
- GEM Rules 14.08 (7) and 17.56(2), and Paragraphs 28 to 31 of Part A of Appendix 1 and Appendix 20

2. Related publications

- HKEX-GL19-10 – Guidance on disclosure of land use rights in the PRC
- HKEX-GL26-12 – Business models with significant forfeited income from prepayments
- HKEX-GL28-12 – Restaurant operators
- HKEX-GL56-13 – Guidance on (i) disclosure requirements for substantially complete Application Proofs; and (ii) publication of Application Proofs and Post Hearing Information Packs on the Exchange’s website
- HKEX-GL36-12 – Distributorship business
- HKEX-GL63-13 – Disclosure of material non-compliance incidents
- HKEX-LD107-1 – Whether heavy reliance on a major customer would render Company A unsuitable for listing

(Updated in November 2023)

3. General guidance

3.1 The “Business” section should properly explain the material components of an applicant’s business model in a simple and easy to understand manner, and include information on key areas e.g. market and competition, suppliers, customers, production, products and services, etc.

3.2 This section should also include the applicant’s risk management policies and procedures and explain how these policies and procedures mitigate risks identified in the “Risk Factors” section:

- description of the existing risk management policies and procedures;
- corporate governance measures (including board oversight and risk management committees with details of qualification and experiences on those personnel in charge);
- a statement on the applicant’s compliance culture (including measures and processes to ensure such culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation); and ***(Updated in July 2020)***

- on-going measures to monitor the effectiveness of these policies, procedures and measures.
- 3.3 Whilst applicants may include competitive strengths in this section, care should be taken to give a fair, unbiased, balanced and factually supported view of an applicant’s business.
 - 3.4 Disclosure should be specific rather than generic, and should tie to other sections of a listing document (e.g. explanations should be given if receivables and payables turnover days in the “Financial Information” section do not match the credit policy in the “Business” section, or if extended credit policy is given to specific customers).
 - 3.5 Cross-referencing to relevant disclosure in other sections of the listing documents to avoid duplication of information if necessary. Information should not be duplicated except in the “Summary” section where information to be highlighted needs to be summarized.
 - 3.6 Where possible, present information using tables, charts and diagrams to ensure clear, concise and precise disclosure.
 - 3.7 (a) It is important for applicants to put in place mechanisms that enable them to meet the Exchange’s requirements on corporate governance (“**CG**”) and environmental, social and governance (“**ESG**”) well in advance so that they are in compliance upon listing. The board of directors of an applicant is collectively responsible for its management and operations, including the establishment of such mechanisms. Directors are expected to be involved in the formulation of such mechanisms and related policies. **(Updated in July 2020)**
 (b) Applicants are therefore recommended to appoint directors (including independent non-executive directors) as early as possible so that directors can engage in the formulation of the necessary mechanisms and policies on CG and ESG. **(Updated in July 2020)**

4. List of key areas that can be found in the “Business” section

4.1 Set out below is a list of key areas that can be found in the “Business” section in listing documents.

Key areas	Examples	Relevant guidance
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Business model	<ul style="list-style-type: none"> • The nature and major functions of an applicant's businesses, taking into account each business' scale and contribution to an applicant • Any change in the business focus during the track record period (and, where applicable, include cross-references to relevant disclosure in the "Products and services" section) 	<p>Guidance Letter HKEX-GL26-12</p> <p>Guidance Letter HKEX-GL28-12</p>
Strengths, strategies and future plans	<ul style="list-style-type: none"> • Business strategies (e.g. strengthening sales network, vertical expansion, entering into long-term contracts, acquisitions, etc.) • Expansion plans (e.g. reasons for expansion, site selection, expected capacity, breakeven 	

Key areas	Examples	Relevant guidance
	<p>period and investment payback period together with the assumptions, etc.) and how an applicant will implement such plans, the time frame, capital expenditure requirements, amounts spent/ to be spent, timing for payments, and source of funding</p> <ul style="list-style-type: none"> • If an applicant has identified any acquisition targets, details of the targets and the selection criteria. If applicable, include cross references to the "Use of Proceeds" section for details • If any change in business focus is planned, reasons for the change and any related change in cost structure, profit margins and risk profile 	
Suppliers, raw materials and inventory	<ul style="list-style-type: none"> • Background of any material suppliers (e.g. business activities, years of business relationship, whether they are connected persons, credit terms and payment method) • Costs related to an applicant's five largest suppliers during the track record period • Detailed terms and conditions of any long term agreements (e.g. duration, minimum purchase commitment and any penalty for non-compliance with such commitment, price adjustment provision, renewal and termination clauses) and whether they are legally binding. Details of any breaches of these agreements during the track record period 	

	<ul style="list-style-type: none"> • Major countries where an applicant purchases its raw materials • Concentration risk and counterparty risk, if any • Sensitivity and breakeven analysis in relation to changes in costs • Any shortage or delay in the supply of raw materials and measures to manage such shortage (e.g. alternative suppliers with comparable quality and prices and substitutes) • Measures to manage fluctuations of raw material prices and whether an applicant can pass on the increase in purchase costs to its customers 	<p>Listing Decision HKEX-LD107-1</p>
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Key areas	Examples	Relevant guidance
	<ul style="list-style-type: none"> • Inventory control measures (e.g. purchases on a back-to-back basis upon receipt of orders, level of inventory to be maintained) and provisioning policy • Legality of the source of supply (e.g. parallel imports, fur, wood, diamonds) 	
<p><i>Production</i> <i>(Only if applicable to the applicant's business)</i></p>	<ul style="list-style-type: none"> • Operation flows, production processes and production time (for each critical process) in the form of a flowchart • Production facilities, capacity for each major product category and utilization of production facilities (with reasons for fluctuations, low or exceedingly high utilization rates, and basis for calculating utilization rates) • Major asset and equipment (whether they are leased or owned, repair and maintenance history, age, depreciation method and time for replacement or upgrade) 	
<p><i>Subcontracting</i> <i>(Only if applicable to the applicant's business)</i></p>	<ul style="list-style-type: none"> • Reasons for subcontracting and basis of selecting subcontractors. Details of subcontractors, including years of business relationship with an applicant and whether they are independent third parties 	

	<ul style="list-style-type: none"> • Salient terms of the subcontracting arrangements/ agreements (e.g. duration, responsibilities of the subcontracting parties, raw materials procurement policy, compliance with relevant quality requirements, basis of determining the subcontracting fees, terms for renewal and termination clauses) 	
Products and services	<ul style="list-style-type: none"> • Product and service types, product life cycle, seasonality and, if applicable, changes to product mix during the track record period • Pictures of products sold, price ranges by brands and product types, reasons for material fluctuations during the track record period, and future price trends 	
Sales and marketing	<ul style="list-style-type: none"> • Direct sales or through distribution channels (e.g. through trading companies, franchiser and distributors) • Movement of point of sales opened and closed during the track record period and 	Guidance Letter HKEX-GL36-12

Key areas	Examples	Relevant guidance
	<p>reasons for closure of point of sales in table format</p> <ul style="list-style-type: none"> • Pricing policy (e.g. fixed price or cost plus), and any rebates • Advertising, sales incentive, promotion and discounts 	

<p>Customers</p>	<ul style="list-style-type: none"> • Background of any major customers (e.g. business activities, years of business relationship, whether they are connected persons, credit terms and payment method) • Revenue from an applicant's five largest customers during the track record period • Detailed terms and conditions of any longterm agreements (e.g. duration, minimum purchase commitment and any penalty for non-compliance with such commitment, price adjustment provision, renewal and termination clauses) and whether they are legally binding. Details of any breaches of these agreements during the track record period • Whether major customers are also an applicant's suppliers or vice versa, and if so, the reasons for this arrangement, the percentage of revenue and costs related to them and a breakdown of their gross profit during the track record period • Major countries where an applicant sells its products Concentration risk and counterparty risk, if any 	<p>Listing Decision HKEX-LD107-1</p>
<p>Product returns and warranty <i>(Only if applicable to the applicant's business)</i></p>	<ul style="list-style-type: none"> • Product returns policy, whether there is any warranty for products and details of the warranty policy (including warranty terms, time period and provisioning policy) • Product recalls, products returned, product liability claims, warranty expenses and the amount of provision during the track record period • Allocation of liability for product defects between an applicant and its suppliers • Customer complaints policy (including procedures for handling complaints) and any customer complaints during the track record period 	

Key areas	Examples	Relevant guidance
<p>Insurance</p>	<ul style="list-style-type: none"> • Policies undertaken, risks not being covered and whether the insurance coverage is adequate and in line with the industry norm • Include cross references to the "Risk Factor" section, if applicable 	

<p>Research and development matters</p>	<ul style="list-style-type: none"> • Material technology and technical know-how required for production or the product • Research and development policy (e.g. nature of R&D expenses incurred, when they are expensed or capitalized) • Research and development team, qualifications and experiences of the personnel, expenses on research and development • Salient terms of cooperation agreements with third parties (including the cost/ profit/ loss sharing arrangement, who owns the intellectual property rights, fees paid to third parties), and whether they are legally binding 	
<p>Environmental and Social matters</p>	<p>Environmental</p> <ul style="list-style-type: none"> • Material information about an applicant's environmental policies (including climaterelated policies) and compliance with relevant environmental laws and regulations that have or may have a significant impact on the applicant (including the annual cost of compliance with applicable rules and regulations during the track record period and the expected cost of compliance going forward) • A description of the significant impacts of the applicant's activities on the environment and natural resources and the action taken to manage them <p>Social</p> <ul style="list-style-type: none"> • Material information about an applicant's policies on compensation and dismissal, equal opportunities, diversity, antidiscrimination, and other benefits and welfare • Occupational safety measures, system of recording and handling accidents and implementation of the policies and the applicant's health and work safety compliance record 	<p>Main Board Rules Appendix 27 and GEM Board Rules Appendix 20</p>

Key areas	Examples	Relevant guidance
	<p>□ Number of material accidents in the course of an applicant's operation, and whether they resulted in any claims for personal or property damages or compensation paid to employees</p>	

Intellectual property	<ul style="list-style-type: none"> • Material trademarks (including goods marks and service marks), patents registered and pending registration • Any dispute or infringement of trademarks and patents, whether they resulted in any legal actions and the reasons if not 	Guidance Letter HKEX-GL56-13 (Updated in November 2023)
Employees	<ul style="list-style-type: none"> • Number of employees by function and geographic location • Training and recruitment policies • Labor unions and any labor disputes • Use of employment agents (with salient terms of arrangements) and whether the applicants or the agents bear the relevant costs of social insurance and housing funds or similar employee benefits in the jurisdiction of employment 	
Properties	<ul style="list-style-type: none"> • Properties with defective titles, idle land, civil defense projects in the PRC and land resettlement operations in the PRC 	Guidance Letter HKEX-GL19-10
Compliance matters	<ul style="list-style-type: none"> • Details of material impact non-compliances, including reasons for the non-compliance incidents, whether the applicant has been, or will be charged or penalized for the noncompliance, enhanced internal controls, any rectification actions and the views of the directors and the sponsor on the adequacy and effectiveness of the enhanced internal controls and the applicant's suitability for listing 	Guidance Letter HKEX-GL63-13
Litigation	<ul style="list-style-type: none"> • Whether an applicant is subject to actual or threatened material claims or litigations and their impact on an applicant's operations, financials and reputation • Whether an applicant's directors are involved in the above claims and litigations and if yes, whether they are able to comply with Main Board Rules 3.08 and 3.09 (GEM Rules 5.01 and 5.02) 	

Key areas	Examples	Relevant guidance
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<p><i>Risk management and internal control systems</i></p>	<ul style="list-style-type: none"> • Details of an applicant's risk management and internal control systems, including process used to identify, evaluate and manage significant risks such as market, credit, operational, environmental (including climate-related), social and governance risk • Composition of applicable risk management committees, including professional qualifications and industry experience • Hedging strategy (e.g. percentage of exposure to be hedged, whether an applicant has engaged and/ or will engage in speculative activities, under what circumstances an applicant would adopt each particular type of hedging method, and key terms of hedging contracts) and an applicant's net hedging position 	
<p><i>Licenses, permits and approvals</i></p>	<ul style="list-style-type: none"> • That an applicant has obtained all material requisite licenses, permits and approvals for its operation, when they were granted, when they will expire and whether they are required to be renewed • Status of renewal of licenses, expected timeframe and, with the support of legal opinion, whether there is any legal impediment to renewing the licenses 	

F. “Financial Information” or “MD&A” section

1. Listing Rules and Regulations

- Main Board Rules 2.13(2) and 11.07, Paragraph 34 of Part A of Appendix 1, and Paragraphs 32 and 47(2) of Appendix 16
- GEM Rules 14.08 (7), 17.56(2) and 18.41
- Paragraph 3 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance
- Paragraph 17.8 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “**Code of Conduct**”)

2. Related publications

- HKEX-GL37-12 – Guidance on disclosure on financial information and prospects of new applicants

(Updated in November 2023)

3. General guidance

3.1 Listing documents must include the MD&A because the financial statements alone do not provide all the information that investors need to make investment decisions. The financial statements mainly disclose the financial effects of past events and do not provide non-financial measures of performance or a discussion of future prospects and plans. The MD&A is to provide discussion and analysis of an applicant’s past performance and main trends and factors that are likely to affect its performance, position and prospects in order to enable investors to see the applicant through the eyes of management.

3.2 To meet the above objectives, applicants are expected to disclose not only past events or information responsive to specific requirements of the Listing Rules, but also an analysis that explains management's view of the implications to an applicant’s future and the significance of that information.

General Principles

3.3 The following are the general principles which should be observed in preparing the MD&A:

- (a) there should be a balanced discussion of all major businesses and segments (both existing and planned) including both positive and negative circumstances of an applicant. Generic discussions that do not provide insight into an applicant’s past performance and prospects should be excluded;

- (b) Cross-referencing to relevant disclosure in other sections of the listing documents to avoid duplication of information if necessary. For example, disclosure on forward looking statements and matters affecting an applicant's future performance can be cross-referenced to the "Future Plans and Prospects" section, and disclosure on basis of presentation, critical accounting policies and estimates, and risk analysis can be cross referenced to the Accountants' Report; and
- (c) presenting information using tables, charts and diagrams is recommended to ensure clear, concise and precise disclosure.

Guidance and Principles on Specific Disclosure

- 3.4 Below are some guidance and principles on specific disclosure generally found in the MD&A.

Key Factors Affecting the Results of Operations

- 3.5 Highlight key events or factors that management considers most important in driving the changes in an applicant's operating results, financial position and cash flows, which may include the following information where appropriate, and not a detailed description or repeating information from the "Business" section:
- economic and regulatory factors that affect the industry and market in which an applicant operates. For example, in the case of a PRC banking business, market conditions such as the interest rate environment and the unique regulatory challenges of operating a banking business in the PRC; and
 - significant relationships, opportunities, challenges and specific risks that are likely to affect an applicant's performance, financial position, liquidity and cash flow in the future.

Critical Accounting Policies and Estimates

- 3.6 Disclose an applicant's critical accounting policies, accounting estimates and assumptions made in applying such policies. It should supplement, and not duplicate, the description of accounting policies disclosed in the notes to the financial statements which at times are too generic. For example:
- in relation to revenue recognition policies, instead of stating that revenue is recognized upon transfer of risks and title, an applicant should clearly state at which point of time revenue is recognized (e.g., upon delivery of goods or issue of invoice to customers) and whether there is any delay due to time required for inspection and acceptance by the customers; and

- where the relevant accounting standards allow different treatments but only one treatment can be adopted in a consistent manner, disclose the treatment adopted by the applicant. State which treatment has been adopted by the applicant and do not disclose all permissible treatments.
- 3.7 For critical accounting estimates and assumptions, an applicant should disclose:
- the procedures and methods used by management in making accounting estimates;
 - how accurate the estimates (or underlying assumptions) have been in the past by comparing with actual results;
 - how the estimates (or underlying assumptions) have changed in the past; and
 - whether the estimates (or underlying assumptions) are likely to change in the future and the reasons for this.

Review of Historical Results, Financial Position and Cash Flows (“Financial Information”)

- 3.8 Disclosure should provide clear descriptions of an applicant’s financial and nonfinancial performance, including factors which explain or provide insights into material fluctuations in the applicant’s operations and performance (including by reference to key financial ratios) during the track record period, and any other significant items. Management should also state its view on whether historical results are indicative of future performance and management’s assessment of an applicant’s prospects.

Examples of disclosure we do not consider meaningful include:

- explaining the changes in operating cash flows by reciting the cash flow movements in narrative form without providing the underlying causes for the changes; and
 - explaining that the decrease in accounts receivables turnover days is due to the increase in sales without providing the reasons/ explanation of the events causing the increase in sales.
- 3.9 Where there have been significant changes in the applicant’s industry such as material changes to commodities prices, political unrest or where an applicant’s operations have been affected by recent natural disasters, appropriate commentary should be made in the MD&A on the extent of the actual and potential impact on an applicant’s operations, financial position and performance and cash flows.

3.10 Explanations of management's perspective of an applicant's direction, targets and prospects, in addition to explanations of past events can help investors develop expectations about an applicant from its past performance and current state. Such explanations should be based on qualitative and quantitative information, and be neutral.

3.11 Additional disclosure on the following items should be made in the MD&A:

- (a) details of any related party loans, advances, guarantees and/ or pledges of securities to/ from an applicant including the terms, and the intentions of these arrangements after listing;
- (b) details of any material related party transactions during the track record period, the directors' views on whether they were conducted on an arm's length basis. If the related party transactions would distort an applicant's track record results or make the historical results not reflective of its future performance, adjusted results may be included to present the applicant's track record results without such transactions; **(Updated in May 2016)**
- (c) applicable tax rate which an applicant is subject to, and details of any preferential tax treatments, tax benefits or special tax arrangements (and their expiry dates). (Note: If expiry is within one year, a risk factor in the "Risk Factors" section is recommended);
- (d) details of any disputes/ unresolved tax issues with the relevant tax authorities, including any provisions made or reasons for no provisions having been made; and
- (e) any post balance sheet events (including share subdivisions, share consolidations, and declaration and payment of dividends). The sponsor and reporting accountants must ensure the information in a listing document is complete and accurate by confirming that proper adjustments and disclosure, if necessary, have been made in the listing document and the Accountants' Report, including relevant post-adjustments financial indicators such as earnings per share.

Liquidity and Capital Resources

3.12 Provide a clear picture of an applicant's ability to generate cash and to meet known, or reasonably likely, future cash requirements, which usually include the following:

- historical information regarding sources of cash and significant expenditures;
- an evaluation of the amounts and certainty of cash flows;

- the existence and timing of capital expenditures and commitments;
- expected changes in the mix and relative cost of capital resources;
- indications of which balance sheet, income or cash flow items should be considered in assessing liquidity;
- prospective information regarding sources of and needs for capital; and
- material covenants relating to outstanding debts, guarantees or other contingent obligations, and whether the covenants have been breached during the track record period (and any related consequences).

G. “Applicable Laws and Regulations” section

1. Listing Rules

- Main Board Rules 2.13(2), 11.07, 13.90 and 19.10(2) & (3), and Paragraph 7 of Part A of Appendix 1
- GEM Rules 14.08 (7), 17.56(2), 17.102 and 24.09(2) & (3), and Paragraph 7 of Part A of Appendix 1

2. Related publications

- Guidance Letter HKEX-GL111-22

3. General guidance

- 3.1 The “Applicable Laws and Regulations” section should describe the rules and regulations that are material to applicant’s current and/ or future business. This section should generally be no more than 20 pages, although its actual length will depend on the nature and complexity of each case. **(Updated in August 2017)**

Avoid use of legalistic language

- 3.2 The “Applicable Laws and Regulations” section is no different from other sections of the listing documents, and should be prepared in a manner that conveys a regulatory overview that is easy to understand by investors who are not lawyers.

Key laws and regulations of the relevant jurisdictions

- 3.3 This section should include up-to-date laws and regulations that are specific and have a material impact on an applicant’s business (e.g. rules and regulations governing the applicant’s key licences for operation). Disclosure should explain clearly how each law or regulation affects an applicant’s business instead of abstract summaries of such law and regulation. An applicant should avoid boilerplate disclosure of laws and regulations that do not materially impact its business (e.g., laws that apply to a business segment which represented, and is expected to represent, a relatively small percentage of an applicant’s revenue and profits).
- 3.4 Where an applicant has or plans to have material businesses, in terms of its operations and sales, in a number of jurisdictions, an appropriate description of the laws and regulations that have a material impact on the applicant’s businesses in each such jurisdiction should be made (e.g. protective tariffs or trade restrictions imposed on the applicant’s goods imported into the customer’s country; intellectual property protection in relation to the products sold by the applicant in the customer’s country and the applicant’s liabilities for breaches).

Key changes in the laws and regulations

- 3.5 Future changes in laws and regulations that are expected to have a material impact on the applicant's business should be included under this section (e.g. the impact of increase in stamp duty on a property development company; or a more stringent financial requirement for obtaining a licence). There should be cross references to the "Business" and the "Risk Factors" sections to describe the impact of changes on the applicant, and its plans and procedures implemented or to be implemented to deal with such changes.
- 3.6 Changes in laws and regulations during or prior to the track record period do not need to be disclosed unless (1) such changes continue to have a material impact on the applicant's business, or (2) such changes affect the interpretation of the applicant's financial performance during the track record period, in which case cross references should be included to other sections of the listing document (e.g. the "Business" section or "Financial Information" section).

Risk of non-compliance

- 3.7 Where there is a risk that the applicant's business may commit a material breach of applicable law or regulation, the steps that the applicant has taken and plans to take to ensure compliance should be disclosed, cross references should be included to other sections of the listing document (e.g. "Risk Factors" section or the "Business" section), and it may be appropriate to include the opinion of a legal adviser as to the materiality of the risk, the risk of enforcement, and the maximum liability of the applicant.

Highly regulated industries

- 3.8 For applicants engaged in a highly regulated industry (e.g. banking, insurance or gambling), the "Applicable Laws and Regulations" section should not only focus on local statutory laws governing the industry (e.g. banking laws, laws governing insurance companies, gambling laws), but also other internationally implemented industry specific rules and regulations (e.g. anti-money laundering).

Laws of the issuer's jurisdiction of incorporation

- 3.9 ***(Deleted in January 2022).***
- 3.10 The disclosure of regulatory provisions (see Main Board Rules 19.10(2) and (3) and 19C.10B(7)) in relation to an applicant's jurisdiction of incorporation should be set out in a section of the listing document separate from the "Applicable Laws and Regulations" section. ***(Updated in January 2022)***

3.11 Where an applicant experiences legal process inefficacy in its jurisdiction of incorporation (e.g. considerable backlog in the local courts giving rise to significant delays in enforcing legal remedies; difficulty of enforcing of a foreign judgment against the applicant due to complexity over recognition of overseas judgements; procedural impediments in the judicial systems) which would affect the operation of its business and how shareholders (including depositary receipt holders) would exercise their rights against the applicant or among themselves in a timely manner, the applicant should highlight its observations on the difficulty of law enforcement in this section. There should be cross references to the “Business” and the “Risk Factor” sections to describe the impact, and its plans implemented or to be implemented (if any) to mitigate the impact on the applicant and its shareholders.

H. “Directors, Supervisors and Senior Management” section

1. Listing Rules and Regulations

- Main Board Rules 2.13, 3.08, 3.09, 11.07 and 13.92, and Paragraph 41 of Part A of Appendix 1
- GEM Rules 5.01, 5.02, 14.08(7), 17.56 and 17.104, and Paragraph 41 of Part A of Appendix 1
- Paragraph 6 of the Third Schedule the Companies (Winding Up and Miscellaneous Provisions) Ordinance

2. Related publications

- None

3. General guidance

Summarised information of Directors, Supervisors and Senior Management

- 3.1 The first page of the “Directors, Supervisors and Senior Management” section should include a table setting out the full name, age, date of joining the applicant, present position in the applicant, date of appointment as director or senior manager and brief description of the roles and responsibilities of each director,³ supervisor, if applicable, and senior management, and any relationship among them.

Biographies of Directors, Supervisors and Senior Management

- 3.2 The biography of each director, supervisor and senior management should include:
- (a) his/ her academic background (e.g. names and locations of universities or colleges⁴, level of education, major of studies, and whether the courses attended were long distance learning courses or online courses) and professional qualifications, including when (month and year) obtained and the granting authorities;
 - (b) his/ her previous working experience relevant to his/ her present position in the applicant (preferably in tabular format if information is extensive), including how he/ she gained access to and possessed relevant industry knowledge and experience in relation to the applicant’s businesses, the

³ All executive directors and non-executive directors must be appointed when an applicant submits its listing application. All independent non-executive directors must be identified when an applicant submits its listing application, but their actual appointments may take place closer to the time the listing document is issued.

⁴ If the relevant university or college is not accredited by competent bodies, this information should be specifically disclosed.

names and principal business activities of companies which he/ she was previously engaged in before joining the applicant, his/ her roles and responsibilities and period of services in the previous jobs;

- (c) any current or past directorships in listed companies in the last three years (or an appropriate negative statement); and
- (d) if he/ she was a director of a listed company which has a history of material non-compliances with applicable rules and regulations, details of such noncompliances and his/ her level of involvement in the non-compliances, and the sponsor's view on why he/ she is suitable to be a director, supervisor or senior management of the applicant.

Other disclosure

3.3 The following should also be disclosed:-

- (a) the role and composition of audit committee, remuneration committee, nomination committee, and other committees, if applicable, including the identity of the chairperson of each committee;
- (b) the directors, supervisors and senior management's remuneration and incentive plan for senior management and key employees; and
- (c) any deviation from the Code Provisions of Appendix 14 to Main Board Rules (Appendix 15 to GEM Rules) (e.g. reasons for the same individual acting as chairman and chief executive officer, succession plan, etc.).

3.4 Persons who were not directors or senior management of the applicant or any of its subsidiaries during the track record period are not required to be included in the table of directors' remuneration in the Accountants' Report.

Board diversity and policy

3.5 Applicants should disclose a policy on board diversity (including gender).

3.6 Where an applicant has a single gender board, it should disclose and explain:

- (a) how and when gender diversity of the board will be achieved after listing;
- (b) what measurable objectives it has set for implementing gender diversity (for example, achieving a specific numerical target for the proportion of the absent gender on its board by a certain year); and

- (c) what measures the applicant has adopted to develop a pipeline of potential successors to the board that could ensure gender diversity of the board.

Overboarding and time commitment (Updated in July 2020)

- 3.7 Applicants should ensure that each director can give sufficient time and attention to the applicants' affairs.
- 3.8 Where an applicant identifies an independent non-executive director who will be holding their seventh (or more) listed company directorships, the applicant should disclose why its board believes the individual would be able to devote sufficient time to the board.

I. “Use of Proceeds” section

1. Listing Rules and Regulations

- Main Board Rules 2.13, and Paragraphs 17 and 48 to 50 of Part A of Appendix 1
- GEM Rules 17.56, and Paragraph 48 to 50 of Part A of Appendix 1
- Paragraphs 32 and 33 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

2. Related publications

- None

3. General guidance

Meaningful Breakdown of the Use of Proceeds

- 3.1 This section should include a detailed breakdown of the use of proceeds. For example, where the net proceeds will be allocated to each of an applicant’s proposed expansion plans, a detailed breakdown of the use of proceeds for each component of the expansion plan (e.g. land acquisition, purchase of plant and equipment, increase in head-count, etc.) should be disclosed.

Proceeds for General Working Capital

- 3.2 Where an applicant has no current or specific plans for the proceeds, or a material portion of them (generally 10% or more), the “Use of Proceeds” section must include a statement to that effect and discuss the principal reasons for the offering.
- 3.3 The Exchange considers that references to “working capital” or “general corporate purposes” do not constitute current or specific plans for the proceeds unless a reasonably detailed explanation is given of how the working capital is to be applied or what the general corporate purposes are.
- 3.4 The Exchange will consider the facts of individual cases to determine whether the explanation for use of proceeds is acceptable. For example, the Exchange has previously decided as follows:

Case 1

The Exchange considered the allocation of all net proceeds as “working capital” by an applicant in the banking industry acceptable as it explained in detail in the listing document that the proceeds were to be used to increase

its capital base to enable it to meet certain statutory capital requirements for business expansion.

Case 2

An applicant allocated 25% of its net proceeds as “working capital” including the expansion of sales force and operations team. The applicant was requested to include a clear explanation in the listing document of why it was necessary to allocate 25% of the proceeds to working capital, and a more detailed explanation on other intended allocations, e.g. for unidentified acquisitions and increase in inventory.

Proceeds for Acquisition of Properties

- 3.5 Where the proceeds will be used to acquire properties from any connected persons or their associates, the “Use of Proceeds” section must disclose the basis for determining the acquisition costs.⁵

Proceeds for Acquisition of Businesses

- 3.6 Where the proceeds will be used to finance acquisitions of businesses, the “Use of Proceeds” section must disclose the identities of the businesses acquired or to be acquired or, if not yet identified, the nature and a brief description of the types of businesses to be sought, the acquisition strategy, and the status of any related negotiations.
- 3.7 Where pro forma financial information reflecting acquisitions is not required under Main Board Rule 4.28 (GEM Rule 7.27) or the Companies (Winding Up and Miscellaneous Provisions) Ordinance, an applicant is still required to disclose the terms of any proposed acquisition, the identities of the parties and the business nature of the acquisition target.

Proceeds for Discharge of Indebtedness

- 3.8 Where the proceeds will be used to discharge debt, the listing document must disclose the interest rate and maturity of the debt. The listing document should also describe how the proceeds from the borrowing were used.

Other related disclosure in Listing Document

- 3.9 Details of proposed capital expenditures would normally be included in different sections of a listing document. For example, if the expenditures are for a programme of construction or equipment purchases, the “Financial

⁵ See Paragraphs 49(1) and 50 of the respective Part A of Appendix 1 to the Main Board Rules and the GEM Rules which require disclosure of details of any property acquisition or proposed acquisition which consideration has not been completed at the date of the listing document, including the names and addresses of the vendor, the consideration (including amounts to be accounted as goodwill).

Information” section of the listing document should discuss matters such as liquidity and proposed capital expenditures.

- 3.10 If material additional funding is necessary for the specified purposes for which the issue proceeds are to be used, the amounts needed and funding source for each specified purpose should be disclosed in the “Use of Proceeds” or the “Business” section of the listing document.

Amount and Allocation of the Proceeds

- 3.11 The “Use of Proceeds” section should set out the amount of net proceeds to be received by an applicant if the offer price is fixed at low-end, mid-point and highend of the offer price range with and without exercising the over-allotment option, if applicable, and the breakdown of the use of proceeds under different circumstances where the amount to be raised is variable.

- 3.12 With respect to GEM applicants:

- paragraph 15(2) of Part A of Appendix 1 to the GEM Rules requires the listing document to disclose whether or not, and if so to what extent, the issue has been underwritten and, if not fully underwritten, the minimum amount of capital, if any, which an applicant must raise for the issue to proceed;
- note 8 to Part A of Appendix 1 to the GEM Rules states that where the listing document refers to an amount proposed to be raised in excess of the minimum amount indicated under paragraph 15(2) of Part A of Appendix 1 to the GEM Rules, the listing document must explain the impact to an applicant and its statement of business objectives for raising such excess amount. In this regard, a statement that the excess will represent working capital shall not be adequate unless a reasonably detailed explanation is given as to how such working capital is to be applied; and
- paragraph 48 of Part A of Appendix 1 to the GEM Rules states that except for a listing by introduction, the listing document should disclose a detailed explanation of the intended use of the proceeds of the issue. The explanation must, so far as practicable, be given by reference to the content of an applicant’s statement of business objectives contained in the listing document (thereby providing an indication of the timing of the deployment of the proceeds).

Change of Use of Proceeds

- 3.13 An applicant may change the use of proceeds due to certain contingencies if these are discussed specifically and the alternatives are clearly described in the “Use of Proceeds” section. Any material change of use of proceeds is

generally price sensitive and, if such information was not previously disclosed in the listing document, an applicant must make an announcement to notify investors of the change after listing.

Sale Shares

- 3.14 The listing document should disclose the number of sale shares in the offer, the amount of net proceeds received by selling shareholder from the sale shares and that the sale proceeds do not belong to the applicant.

J. “How to Apply for Hong Kong Offer Shares” section

1. Listing Rules and Regulations

- Main Board Rule 10.09
- GEM Rules 13.21 to 13.25
- Paragraph 8 of the Third Schedule and Part 4 of Eighteenth Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance
- Paragraphs 5.1.2 and 5.1.5 of the Guide to Eligibility and Admission of Securities to CCASS (the “**CCASS Guide**”)

2. Related publications

- [Template for the “How to Apply for Hong Kong Public Offer Shares” section in Prospectus](#) (*Added in November 2023*)

3. General guidance

- 3.1 The “How to Apply for Hong Kong Offer Shares” section in a listing document (the “**How to Apply Section**”) provides information on the application procedures. We have set out sample disclosure in the How to Apply Section in the link under “Related publications” above. (*Updated in November 2023*)
- 3.2 (*Deleted in November 2023*)
- 3.3 (*Deleted in November 2023*)
- 3.4 (*Deleted in November 2023*)
- 3.5 (*Deleted in November 2023*)
- 3.6 Applicants who intend to adopt Mixed Media Offers are advised to consult the Exchange in advance of their application. (*Updated in November 2023*)

Exhibit I (*Deleted in November 2023*)

Exhibit II (*Deleted in November 2023*)

Exhibit III (*Deleted in November 2023*)

Appendix 2

List of certain other guidance letters published by the Exchange relating to disclosure in listing documents. These remain in full force and effect.

Industry-specific guidance letters			
1	HKEX-GL26-12	01/2012	Business models with significant forfeited income from prepayments
2	HKEX-GL28-12	01/2012	Restaurant operators
3	HKEX-GL36-12	05/2012	Distributorship business
4	HKEX-GL52-13	03/2013	Mineral companies
5	HKEX-GL71-14	01/2014	Gambling activities
6	HKEX-GL107-20	04/2020	Biotech Companies
6A	HKEX-GL113-22	01/2022	Guidance on Special Purpose Acquisition Companies
Other guidance letters on disclosure in a Listing Document			
7	HKEX-GL8-09	07/2009	Disclosure of statistics and data quoted in listing documents
8	HKEX-GL24-11	03/2011	Disclosure requirements for IPO cases – Formal Notice (Withdrawn)
9	HKEX-GL30-12	02/2012	Disclosure of intellectual property rights (Superseded)
10	HKEX-GL34-12	04/2012	Disclosure of hard underwriting
11	HKEX-GL38-12	06/2012	Latest practicable date and the latest date for liquidity disclosure (Withdrawn)
12	HKEX-GL37-12	06/2012	Guidance on disclosure on financial information and prospects of new applicants
13	HKEX-GL98-18	07/2018	Guidance on disclosure in listing documents – listing applicants’ names; statistics and data quoted; listing document covers; non-disclosure of confidential information; and material changes after trading record period
14	HKEX-GL63-13	07/2013	Disclosure of material non-compliance incidents
15	HKEX-GL56-13	07/2013	Guidance on (i) disclosure requirements for substantially complete Application Proofs; and (ii) publication of Application Proofs and Post Hearing Information Packs (“PHIPs”) on the Exchange’s website

(Updated in November 2023)