HKEx GUIDANCE LETTER
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Summary	
Subject	**Payment of special dividend based on a new applicant's estimated distributable profits for a period up to the day immediately before listing**
Listing Rules	**Main Board Rules 2.13(2), 8.21A, 11.16 to 11.19**
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Important note: *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules, or this letter.*

1. Purpose

This letter provides guidance on how a Main Board new applicant should disclose in a prospectus payment of a special dividend based on its estimated distributable profits for a period up to the day immediately before listing.

2. Applicable Listing Rules

2.1 Rule 2.13(2) states that the information contained in the listing document must be accurate and complete in all material respects and not be misleading or deceptive.

2.2 Rule 8.21A requires that a new applicant must include a working capital statement in the listing document. In making this statement the new applicant must be satisfied after due and careful enquiry that it and its subsidiary undertakings, if any, have available sufficient working capital for the group's present requirements, that is for at least the next 12 months from the date of publication of the listing document. The Directors need to confirm the sufficiency of working capital in the prospectus under Paragraph 36 of Appendix 1A of the Listing Rules.

2.3 Rule 11.16 provides:

"a listing document (other than one supporting a capitalisation issue) must not contain reference (general or particular) to future profits or contain dividend forecasts based on an assumed future level of profits unless supported by a formal profit forecast. Dividend forecasts not based on assumed future profits are not subject to this rule."

2.4 Rule 11.17 states:

"…. where a profit forecast appears in any listing document (other than one supporting a capitalization issue), it must be clear, unambiguous and presented in an explicit manner and the principal assumptions, including commercial assumptions, upon which it is based, must be stated and such profit forecast must be prepared on a basis that is consistent with the accounting policies normally adopted by the issuer. The accounting policies and calculations for the forecast must be reviewed and reported on by the reporting accountants and their report must be set out. The financial adviser or sponsor must report in addition that they have satisfied themselves that the forecast has been made by the directors after due and careful enquiry, and such report must be set out.

…. a "profit forecast" also includes any profit estimate, being any estimate of profits or losses for a financial period which has expired but for which the results have not yet been audited or published…"

2.5 Rule 11.18 provides:

"A profit forecast appearing in a listing document (other than one supporting a capitalization issue) should normally cover a period which is coterminous with the issuer's financial year-end. If, exceptionally the profit forecast period ends at a half year-end the Exchange will require an undertaking from the issuer that the interim report for that half year will be audited. Profit forecast periods not ending on the financial year end or half year-end will not be permitted."

2.6 Rule 11.19 states:

"The assumptions upon which any profit forecast appearing in a listing document (other than one supporting a capitalisation issue) are based must provide useful information to investors to help them in forming a view as to the reasonableness and reliability of the forecast. Such assumptions should draw the investors' attention to, and where possible quantify, those uncertain factors which could materially disturb the ultimate achievement of the forecast. The assumptions should be specific rather than general, definite rather than vague. All embracing assumptions and those relating to the general accuracy of the estimates made in the profit forecast should be avoided."

3. Guidance

3.1 An issuer must have sufficient working capital to meet its needs for at least the next twelve months. This should take into account its obligation to pay any declared dividend. Further, where an issuer proposes to make a sizable dividend distribution, it must disclose in its prospectus details about the special dividend including the estimated amount, the basis of calculation, the date of payment and method of financing.

3.2 Where a proposed dividend payment is based on forecast profits (whether partly or wholly), the dividend payment should normally be supported by a profit forecast prepared in accordance with the Listing Rules. The forecast period must therefore cover a period which is coterminous with the issuer's financial year-end or, exceptionally, the issuer's half-year end.

3.3 The Exchange considers it acceptable if a dividend forecast is based on a straight pro-rata adjustment made to a profit forecast which covers the issuer's completed financial year-end. An issuer using this arrangement does not need to prepare a separate interim profit forecast which would otherwise have required a waiver of Rule 11.18.

3.4 Further, to ascertain the amount of the proposed special dividend, the Exchange normally requires the issuer to undertake to perform a post-listing special audit of the results. This means that the special audit should cover the special dividend period and be made up to the end of the month in which the special dividend period ends and prorated according to the actual number of days in the special dividend period. The amount of the special dividend determined by the special audit must be disclosed through public announcements.

3.5 While the Exchange normally requires the issuer to perform a special audit to ascertain the amount of dividend payable, we may accept alternative arrangements in specific circumstances. For example:

(a) Mandatory distribution

The Exchange has previously allowed no estimate of the amount of the dividend payment in the prospectus and did not require any special audit to be carried out to ascertain the dividend amount. These cases all involved H-share listings where the applicable PRC law required H-share issuers to distribute to their pre-listing shareholders all their retained earnings corresponding to a period up to their respective group restructurings. There were disclosures in the prospectuses of the law that prescribed the distribution.

(b) Management accounts show a generous buffer for dividend payment

In another case, the Exchange allowed the issuer to determine the amount of special dividend corresponding to a period ending on the day immediately before the public offering based on its management accounts made up to the latest practicable date before the public offering. The Exchange did not require the issuer to perform a special audit to ascertain the dividend amount. The prospectus therefore disclosed the actual amount of special dividend corresponding to a future period. In coming to this decision, the Exchange was satisfied that there were sufficient distributable profits to pay the proposed special dividend based on the directors' confirmation which indicated a generous buffer based on its forecast profits for the completed year.