

~~HKE~~**HKEX** GUIDANCE LETTER

~~HKE~~**HKEX**-GL35-12 (May 2012) (updated in July 2013) ~~- effective for applications submitted on or after~~ and April 2019

[Updated to include relevant guidance from HKEX-GL15-09, HKEX-LD35-2, HKEX-LD37-2, HKEX-LD50-1 October 2013 and HKEX-LD50-4 which have been withdrawn]

Subject	<u>Profit</u> Profit Guidance on profit forecast and special dividend
Listing Rules	<u>Main Board Rules 9.11(10)(b)2.13(2), 4.04(1), 8.06 and 11.17 16 to 11.19 and Paragraph 34(2) of Part A of Appendix 1</u> <u>GEM Rules 12.22(14b)7.03(1), 11.10, 11.11, 17.56(2), 14.28 to 14.31 and 14.29 Paragraph 34(2) of Part A of Appendix 1</u>
Related Publications	<u>Guidance Letter HKEHKEX-GL25-11 (October 2011) (Updated in November 2011, March 2012 Conditions for waivers from strict compliance with Main Board Rule 4.04(1) and June 2013 GEM Rules 7.03(1) and 11.10 ("GL25-11"))</u> <u>Guidance Letter HKEX-GL58-13 - Guidance on confirmations required on the accountants' report, pro forma financial information and profit forecast in Application Proofs and subsequent draft listing documents ("GL58-13")</u> <u>Guidance Letter 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 ("GL98-18")</u>
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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~~Department on a confidential basis for an interpretation of the Listing Rules or this letter.

1. Purpose

~~1.1~~—The purpose of this letter is to provide guidance and clarification on:—

(i) ~~the difference between~~ profit forecast and ~~profit estimate~~;—

~~(ii) when applicants need to include a profit forecast or a profit estimate in a listing document; and~~

~~(iii) the submissionpayment of a profit forecast memorandum irrespective of the repeal of Main Board Rule 8.21B.~~

~~special dividend after listing based on distributable~~

~~2. Relevant Listing Rules~~

~~2.1 Main Board Rule 11.17 (GEM Rule 14.29) states that a profit forecast means any forecast of profits or losses, however worded, and includes any statement which explicitly or implicitly quantifies the anticipated level of future profits or losses, either expressly or by reference to previous profits or losses or any other benchmark or point of reference. It also includes any profit estimate, being any estimate of profits or losses for a financialany period which has expired but for which the results have not yet been audited or published.~~

~~2.21.1 Main Board Rule 11.17 (GEM Rule 14.29) also states that where a profit forecast appears in anybefore listing document, it must be clear, unambiguous and presented in which includes an explicit manner and the principal assumptions, including commercial assumptions, upon which it is based, must be statedunaudited period.~~

~~1.2 The Exchange expects new applicants to follow this guidance letter when preparing their listing applications. An Application Proof that does not follow this guidance may be considered not substantially complete as required under the Listing Rules (added in April 2019).~~

~~2.3 Relevant Listing RulesMain Board Rule 8.21B on profit forecast in pre-deal research reports was repealed on 1 February 2012.~~

~~2.4 Main Board Rule 9.11(10)(b) (GEM Rule 12.22(14b) states that where the Application Proof does not contain a profit forecast, a final or an advanced draft of the board's profit forecast memorandum and cash flow forecast memorandum should be submitted to the Exchange by a listing applicant at the time of submission of the listing application.~~

~~2. (deleted in April 2019¹)~~

3. Guidance

Difference between profitProfit forecast and profit estimate

~~3.1 AccordingIt is best practice for all financial information included in a new applicant's listing document to be audited. Therefore, if a new applicant wishes to provide more recent financial results beyond that required under the Main Board Rule 11.17Rules 4.04(1) and 8.06 (GEM Rule 14.29), profit forecast includes Rules 7.03(1), 11.10 and 11.11), it should include audited financial results of the stub period rather than a profit estimate. covering the same~~

¹ This section has been deleted to avoid duplication of the relevant Main Board and GEM Rules. Reference to the relevant Listing Rules is included in the body of the guidance letter.

period. New applicants should also refer to GL98-18 for guidance on disclosure of material changes after trading record period.

~~3.13.2~~ A profit forecast means any forecast of profits or losses, ~~whereas.~~ It also includes a profit estimate which is an estimate of profits or losses for a financial period which has ended but for which the results have not yet been audited or published. Where a new applicant discloses its unaudited net profit/ loss figure or other financial figures which can explicitly or implicitly result in disclosure of the new applicant's estimated level of profits/ losses since the latest audited period end (e.g. disclosure of both revenue and net profit margin), this will constitute a profit forecast/ estimate and therefore subject to the relevant requirements under the Listing Rules².

~~3.2~~ Main Board Rule 11.17 (GEM Rule 14.29) further states that the principal assumptions on which a profit forecast is based should be stated in a listing document. Principal assumptions are assumptions for major factors which affect a profit forecast. These major factors include, among others, political and economic condition, foreign exchange rate, inflation rate, interest rate and tax rate.

~~3.3~~ The assumptions must provide useful information to investors to help them in forming a view as to the reasonableness and reliability of the forecast. Although a profit estimate is regarded as a profit forecast, the requirement to state assumptions is not applicable as a profit estimate is related to a financial period which has ended. Factors affecting a profit estimate are already known and there is no need to include any assumptions.

When to include a profit forecast or a profit estimate in a listing document

~~3.43.3~~ The inclusion of a profit forecast or a profit estimate in a listing document is on a purely voluntary basis. ~~The inclusion of a profit estimate is only required when a listing new applicant applies for a waiver from compliance with Main Board Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) which requires the inclusion in its accountants' report its consolidated results for each of the three financial years immediately preceding the issue of the listing document. The conditions that we would ordinarily expect in a Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) Waiver are set out in Guidance letter HKEx-GL25-11.~~³ Otherwise, the inclusion of a profit forecast in a listing document is a commercial decision. Accordingly, the absence of a profit forecast is not a risk and should not be disclosed as a risk factor.

Requirement to submit profit and cash flow forecast memorandum

² Main Board Rules 11.17 and 11.18 and Paragraph 34(2) of Part A of Appendix 1 of the Main Board Rules (GEM Rules 14.29 and 14.30 and Paragraph 34(2) of Part A of Appendix 1 of the GEM Rules).

³ Main Board Rule 4.04(1) (GEM Rules 7.03(1) and 11.10) requires the new applicant to include in its accountants' report its consolidated results for each of the three financial years immediately preceding the issue of the listing document. The waiver conditions that we would impose when granting a waiver to this rule are set out in GL25-11.

~~3.5 The submission of the profit and cash flow forecast memorandum to the Exchange under Main Board Rule 9.11(10) (GEM Rules 12.22(14a) and 12.22(14b)) is to demonstrate an applicant's sustainability and remains a requirement under the Main Board Rules despite the repeal of Main Board Rule 8.21B.~~

~~3.6 Applicants should note the difference between Main Board Rules 9.11(10)(a) (GEM Rule 12.22(14a)) and 9.11(10)(b) (GEM Rule 12.22(14b)):~~

As with any information included in a

~~3.4 If an applicant includes a profit forecast in its Application Proof, the profit forecast memorandum should cover the same period of the profit forecast and the cash flow forecast memorandum should cover at least 12 months from the expected date of publication of the listing document with, the profit forecast must be prepared to such a standard as would justify reasonable reliance upon it by investors⁴. The directors and sponsors have a responsibility to ensure that any expert report included in the listing document is a fair copy of or extract from that prepared by the expert, fairly represents the expert's view and does not omit material facts of an unfavourable nature or fails to accord them with appropriate significance. As such:~~

~~(i) the principal assumptions, on which a profit forecast is based must be reasonably specific to the new applicant⁵ and disclosed in the listing document⁶;~~

~~(ii) the sponsors should conduct due diligence in relation to the expert's background and experience, and the reasonableness and appropriateness of their scope of work performed;~~

~~(+)(iii) the accounting policies and calculations for the forecasts under Rule 9.11(10)(a) (GEM Rule 12.22(14a)) profit forecast must be examined and reported on by the reporting accountants and the report must be set out in the listing document; and the listing document should not contain any disclaimer by the reporting accountants warning investors not to rely on the profit forecast⁷; and~~

~~(iv) under no circumstances may there be any language, disclaimer or risk factor in the listing document that serves to curtail the application of the Listing Rules in a manner that is not consistent with the responsibilities of the directors and sponsors.~~

Payment of a special dividend after listing based on distributable profits for any period before listing which includes an unaudited period ("Pre-Listing Period")

⁴ Main Board Rule 2.13(2) (GEM Rule 17.56(2)).

⁵ For example, "downturn of the economy" is overly general, whilst "changes in inflation rate and commodities price in the case of an applicant in the mining industry" is considered specific.

⁶ Main Board Rule 11.19 (GEM Rule 14.31).

⁷ New applicants should refer to GL58-13 for relevant guidance.

3.5 Where a new applicant proposes to pay a special dividend to its pre-listing shareholders after listing based on the distributable profits for the Pre-Listing Period (“Special Dividend”), it must disclose in its listing document the Pre-Listing Period, the expected dividend payout ratio, who is entitled to the Special Dividend, timing of payment and how the Special Dividend will be funded.

3.6 New applicants should perform a special audit post listing (“Special Audit”) to ascertain the accuracy of the distributable profits for the Pre-Listing Period and hence the accuracy of the amount of the Special Dividend, regardless of whether the estimated amount of Special Dividend is disclosed in the listing document. The new applicants should also disclose in the listing document that they will (i) perform the Special Audit on the Pre-Listing Period and when the Special Audit is expected to be completed; and (ii) announce the amount of the Special Dividend payable determined by the Special Audit.

~~(ii) — If an applicant does not include a profit forecast in its Application Proof, the profit forecast memorandum should cover the period up to the forthcoming financial year end date after the date of listing and the cash flow forecast memorandum should cover at least 12 months from the expected date of publication of the listing document with principal assumptions, accounting policies and calculations for the forecasts under Rule 9.11(10)(b) (GEM Rule 12.22(14b)).~~

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3.7 —the new applicant discloses additional information on the Special Dividend beyond those required in paragraph 3.5 above such that the new applicant’s estimated level of profits/ losses since the latest audited period end can be derived from the Special Dividend⁸, the new applicant must disclose a profit forecast in the listing document⁹ (see paragraph 3.2 above).

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⁸ Main Board Rules 11.16 and 11.17 (GEM Rules 14.28 and 14.29).

⁹ Main Board Rule 11.18 (GEM Rule 14.30).