

HKEX GUIDANCE LETTER

HKEX-GL48-13 (January 2013) (updated in July 2013 and January 2014)

(Withdrawn in May 2016, superseded by HKEX-GL86-16)

Subject	Simplification Series – Disclosure in listing documents for IPO cases – the “Industry Overview” section
Listing Rules and Regulations	Main Board Rules 2.13(2) and 11.07 GEM Rules 14.08(7) and 17.56(2)
Related Publications	HKEX-GL8-09 (first published in July 2009) - Statistics and data quoted in prospectuses
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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

- 1.1 This letter provides guidance on the disclosure in the “Industry Overview” section in listing documents. Specifically, it aims to ensure that the section:-
- is concise, easy to read and in plain language, and
 - provides investors with a fair and balanced disclosure of the overall industry information relevant to an applicant’s business to enable readers to form an opinion of the investment.
- 1.2 The Exchange expects applicants to follow this letter when preparing their listing applications. A listing document that does not follow this guidance may be considered not substantially complete as required under the Listing Rules *(Updated in July 2013)*.

2. Relevant Listing Rules

- 2.1 Main Board Rule 2.13(2) (GEM Rule 17.56(2)) requires that the information contained in the listing document must be accurate and complete in all material respects and not be misleading or deceptive. In complying with this requirement, an applicant must not, among other things:-
- (a) omit material facts of an unfavourable nature or fail to accord them appropriate significance;
 - (b) present favourable possibilities as certain or as more probable than is

likely to be the case; or

(c) present projections without sufficient qualification or explanation.

2.2 Main Board Rule 11.07 (GEM Rule 14.08(7)) sets out an overriding general duty of disclosure in a listing document.

3. Guidance

3.1 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 provide 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.

3.3 As a guide, applicants may consider including the information in these sections elsewhere in listing documents instead of a standalone section as is the current practice. This may help investors to discern the relevance of the commentary on the industry to an applicant’s business more easily. (*Updated in July 2013*)

3.4 Set out below are some guidance and principles on disclosure.

No extraneous information and be succinct

3.5 The “Industry Overview” 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 this is only a rule of thumb and its actual length will depend on the nature and complexity of each case.

3.6 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. (Updated in January 2014)
- 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 in the section 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

- 3.7 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 houses; (3) the parameters and assumptions used when these data or statistics were prepared; and (4) the basis upon which these data or statistics are considered reliable.
- 3.8 Sometimes this section may include projections and data relating to future periods (e.g. up to five years after the date of a listing document), yet the rest of the listing document does not include information on the various assumptions made for these projections. An applicant's directors and sponsor should explain in the listing document the basis and major assumptions made for the projections and the basis on which they are satisfied that the disclosure of this information is not misleading.

Up-to-date market information

- 3.9 An applicant should ensure that the most up-to-date market information is disclosed in this section. 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, the market information should be at least updated to the latest financial year immediately preceding the issue of the listing document so that investors can compare the market information with an applicant's financial information in the listing document.
- 3.10 An applicant's directors should confirm in this section that after taking reasonable care, 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

- 3.11 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.
- 3.12 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.
- 3.13 This section should include information on how the statistics are collected and analysed to show that the statistics presented are not skewed in favour of an applicant.

Competitive landscape and competitive advantages

- 3.14 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, and future opportunities, threats and/ or challenges to the markets. It should also include the market shares of an applicant's major products, and the source of the information and the estimation basis.
- 3.15 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 competitive advantage of economies of scale should explain in the section the scale of its operation when compared with its peers within the industry quantitatively, and how its scale provides competitive advantage quantitatively and qualitatively (e.g. stronger bargaining power with suppliers led to a 10% discount being offered by them to the applicant when compared with a 5% discount offered to its peers).

Historical price trends of raw materials and final products

- 3.16 This section should include, preferably in the form of charts and tables with the same scale covering the same time period and be consistent with the time period in other sections of a listing document, the historical prices of an applicant's major raw materials and final products (especially for applicants engaged in the commodities business) during the track record period and up to the latest

practicable date, and commentary on any material fluctuation. It would also be helpful to investors if an applicant explains in the section how the change of its major raw material prices affected the selling prices of its final products historically.
