

HKEx GUIDANCE LETTER

HKEx-GL27-12 (January 2012) (Updated in June, July and November 2013, January and April 2014, and January 2015)

Subject	Simplification Series – Disclosure in listing documents for IPO cases – the “Summary and Highlights” section
Listing Rules and Regulations	Main Board Rules 2.13 and 11.07 GEM Rules 14.08(7) and 17.56
Related Publications	Frequently Asked Questions Series 23 HKEx-GL33-12 – Disclosure in listing documents for IPO cases – Use of Proceeds – HKEx-GL41-12 – Disclosure requirements for IPO cases – Disclosure of material changes in financial, operational and/ or trading position after trading record period
Author	IPO Transactions Department

Important note: *This letter does not override the 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-GL33-12 – Disclosure in listing documents for IPO cases – Use of Proceeds
- HKEx-GL41-12 – Disclosure requirements for IPO cases – Disclosure of material changes in financial, operational and/ or trading position after trading record period

General 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~~

~~1.13. This letter provides guidance on the disclosure in how to draft the “Summary and Highlights” section in listing documents. Specifically, it aims to ensure that the section:~~

- ~~— is comprehensible and readable,~~
- ~~— is concise, easy to read and in plain language, and~~
- ~~— enables investors to decide whether they might be interested in the offer, and therefore wish to read the rest of the listing document.~~

~~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 Requirements~~

~~2.1 Main Board Rule 2.13 (GEM Rule 17.56) requires that (i) the information contained in the listing document must be clearly presented and in the plain language format specified or recommended by the Exchange and/or the Commission from time to time; and (ii) the information contained in the listing document must be accurate and complete in all material respects and not be misleading or deceptive. In addition, 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 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 Attachment 1 provides some guidance on how to draft the “Summary and Highlights” section in a way that It is concise, easy to read, and in plain language. It also provides guidance on what information we would typically expect to be included in the section.~~

~~3.3 Attachment 1 should not be regarded as a prescriptive checklist of information that must be included. Only information that is considered relevant and necessary for an applicant should be included. In assessing this, an applicant should ensure that the content is consistent with the key messages contain in its listing document and roadshow presentation.~~

~~3.43.2 It will not generally be not appropriate for the “Summary and Highlights” section to include paragraphs that have been cutcopied and pasted from elsewhere in the listing document. The text in the “Summary and Highlights”~~

this section should be a high level overview drafted separately specifically for this purpose.

~~3.5 We intend to work with market practitioners to help them become familiar with the simplified approach to a succinct and informative summary. We recognize that this initiative involves the exercise of judgment as to what is material information. However, there is room for improvement and for the “Summary and Highlights” section to become more concise and clearer. We expect the general principles in Attachment 1 will help to simplify and improve the content of a listing document.~~

1. ~~General guidance on how to draft the “Summary and Highlights” section in a way that is concise, easy to read and in plain language.~~

General plain language principles

- ~~• use short sentences;~~
- ~~• choose a legible type size. Small font size and close line spacing will decrease legibility. Generally, a point size in 10pt - 12pt is appropriate. The line spacing (leading) should not be less than 2 points. Please note that different typefaces even in the same point size have different height and width and these may appear larger or smaller depending on the typeface. The font and line spacing size used in the “Summary and Highlights” section must be the same as in other parts of the listing document (**updated in April 2014**);~~
- ~~• use definite and direct everyday language;~~
- ~~• use the active voice (e.g. “You should call the helpline for more information” rather than “The helpline is available for more information”);~~
- ~~• avoid superfluous words;~~
- ~~• organize the listing document into clear, concise sections, paragraphs and sentences with appropriate headings and sub-headings;~~
- ~~• use concise cross referencing with page numbers (e.g. not a list of multiple cross references that is a paragraph in itself and does not include page numbers);~~
- ~~• avoid jargons;~~
- ~~• use personal pronouns to speak directly to the reader;~~
- ~~• avoid repetition;~~
- ~~• avoid vague or irrelevant boilerplate wordings;~~
- ~~• avoid abstract terms by using more concrete terms or examples; and~~
- ~~• use the positive and avoid multiple negatives.~~

Principles for dealing with technical points

- ~~• use simple defined terms (e.g. one or two short words not five long words) and, where possible, avoid using defined terms within the definition of defined terms;~~
- ~~• avoid reliance on glossaries and defined terms unless they help to understand the disclosure;~~

- use technical terms only when necessary and explain them; and
- use charts, tables, bullet points and examples where it makes disclosure easier to understand.

The “Summary and Highlights” section should omit:

~~marketing statements;~~

- ~~a detailed description of an applicant’s competitive strengths and business strategies — instead, only include a list, or a list with a sentence or two briefly explaining each;~~
 - ~~multiple pages of detailed financial statements — instead, limit the disclosure in financial tables to the key line items in the headline financial statements, key financial ratios, and material sector / operating information that are material and specific to an applicant’s business;~~
 - ~~detailed discussion and analysis of an applicant’s financial results — instead, only include discussion of any significant change during track record period and thereafter;~~
 - ~~a full list of risk factors — instead, the summary should only highlight the most material risks to an applicant and make reference to the “Risk Factors” section for other risks;~~
 - ~~a detailed description of the dividend policy, except for — instead, only highlight the expected dividend payout ratio and, any significant distributions and material matters that should be drawn to investors’ attention;~~
- an
- ~~commentary on the applicant’s industry section — generally — instead, only include insignificant changes in industry commentary within the trends which are likely to be material to the applicant’s business, strengths or strategies sections, as appropriate; and~~
 - ~~detailed bases and assumptions of forecasts any profit forecast and other information — instead, use cross references to other sections of the listing document instead.~~

Use tables to make the “Summary and Highlights” section easier to read, for example

- use of proceeds;
- expansion plan and capital expenditure;
- key selected financial/ operational ratios;
- offering statistics; and

- ~~• profit forecast and pro forma information.~~

~~*Overall length of the "Summary and Highlights" section*~~

- ~~• ask yourself if the "Summary and Highlights" section is as concise as possible;~~
 - ~~• omit irrelevant information that would not be necessary to enable an investor to decide whether he might be interested in the offering and therefore wish to read the rest of the listing document (which will contain the full information required to make an informed investment decision – this does not all need to be included in the "Summary and Highlights" section); and~~
the
- ~~• 3.3 The "Summary and Highlights" section should generally be no more than 10 pages, based on the typeface, point size and line spacing used throughout the listing document, although this is only a rule of thumb and itsthe actual length will depend on the nature and complexity of an applicant, its business and the offering **(Updated in April 2014)**.~~

~~2.~~
4. Checklist List of information that might be included in the “Summary and Highlights” section with guidance on what to disclose and how to disclose it.

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

Key areas	Purposes	Recommendations <u>Disclosure recommendations</u>
Business model	<p>Provide information on an applicant's business</p> <p>- <u>on an applicant's current principal business activities</u> (including any change in the business focus during and after the track record period), and how <u>they such activities</u> generate revenue.</p>	<ul style="list-style-type: none"> • <u>Proper explanation and clarity on applicant business model</u> • an applicant's current principal business activities • <u>where material (consider using a flow diagram to describe the applicant's current business or track record, model)</u> • <u>pricing model</u> • <u>any unique features of the applicant's industry (e.g. government grants, incentives, revenue recognition policies)</u> • major development milestones and, mergers and acquisitions • where material to an applicant's current business or track record, any change in the business focus during and after the track record period • a description of the business direction in which an applicant is heading and the expected impact on its operations and financial position

Key areas	Purposes	Recommendations <u>Disclosure recommendations</u>
	<p>Provide information on major stakeholders</p> <p>—an applicant’s business may be significantly influenced by its major stakeholders and their relationship<u>relationships</u> with the applicant.</p> <p>—</p>	<ul style="list-style-type: none"> • major customers and distributors, suppliers and contract manufacturers <u>and providers of finance, etc., etc., and their relationships with the applicant or its shareholders</u> • sales/distribution channels • <u>any material transactions which are not on normal commercial terms</u>
	<p>Provide information on an applicant’s market positions<u>position</u> within the industry</p> <p>—to help investors assess the competitive landscape of an applicant’s business.</p> <p>—</p>	<ul style="list-style-type: none"> • —market share/ ranking data of key market players • the “Summary and Highlights” section should not generally include a separate industry section, although it may refer to industry trends within this area and under strengths and strategy • <u>the applicant</u>
	<p>Provide a summary of an applicant’s competitive strengths and business strategies</p> <p>- <u>to help investors understand how the applicant differentiates itself from its competitors.</u></p>	<ul style="list-style-type: none"> • <u>if unique to the applicant, list the any key competitive strengths and business strategies</u> • an applicant may also if not self-explanatory, include one or two sentences briefly explaining each a brief explanation of the competitive strength and or business strategy • <u>Do not include: if necessary</u> • do not cutcopy and paste full competitive strengths and business strategies from the “Business” section<u>marketing materials</u>

Key areas	Purposes	<u>Recommendations</u> <u>Disclosure</u> <u>recommendations</u>
Shareholder information	<p>Provide information on major shareholders and investors that may control or have an influence on an applicant:</p> <p>— to help investors assess any key business <u>relationships</u> relationships between them <u>shareholders, investors</u> and the applicant and <u>business competition</u> - <u>and reliance</u>.</p>	<ul style="list-style-type: none"> • major <u>identities</u> of <u>controlling</u> shareholders and pre-IPO investors; competition and key business relationships with controlling shareholders (e.g. key connected transactions), if any • 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 • <u>_____</u>
Key operational and financial data	<p>Provide a quick <u>brief</u> overview of an <u>key financial information/ ratios</u> which are particularly relevant to <u>understanding the</u> applicant's financial condition and results of operations during the track record period.</p>	<p>To be tailored to an applicant, but by way of <u>For example:</u></p> <p>key financial information/ ratios (e.g. revenue, gross profit, net profit, gross profit margin, net profit margin, gearing, current ratio) with segmental breakdown of revenue and gross profit (e.g. by business, products, geographical areas, etc.)</p> <ul style="list-style-type: none"> • <u>key operating indicators (e.g. production financial and operational data should preferably be limited to one page</u> • <u>in relation to the banking sector, net interest spread, net interest margin, capital adequacy ratio, non-performing loan ratio, and loan-to-deposit ratio should be included</u> • <u>in relation to the securities sector, amount of securities underwritten, average commission rates, trading volume, average selling price, production capacity rate of return, assets under management, and utilisation rate) balances of margin financing and securities lending should be included</u> • <u>_____</u> • <u>Any significant non-recurring items, or significant items which are not</u>

Key areas	Purposes	Recommendations <u>Disclosure recommendations</u>
		<p><u>incurred in the ordinary and usual course of the applicant's business should be highlighted.</u></p> <p>Financial and operational data should preferably be limited to <u>one</u> page.</p> <ul style="list-style-type: none"> Focus on high level discussion and analysis and keep it short.

Key areas	Purposes	<u>Recommendations</u> <u>Disclosure recommendations</u>
<p>Recent development (Updated in July and November 2013, January 2014 and January 2015)</p>	<p>Provide an update on an applicant's operations and financial position since the latest audited financial period/year.</p>	<ul style="list-style-type: none"> • an <u>where there have been material changes, a qualitative</u> 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 information or quantitative information with commentary relating to its financial performance <u>condition and profitability</u>⁴ (e.g. revenue, gross profit/ loss, gross profit/ loss margin, and/or operating data such as average selling price and sale volume). <u>results of operations since the latest audited financial period, including by reference to the key financial information/ ratios referred to above^{2, 3}</u> The disclosure must enable investors to have a sense of materiality of the recent developments. <p>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 the non-profit forecast financial <u>this information has been reviewed by the reporting accountants.</u></p> <p>The disclosure of the comparative financial information to the non-profit forecast financial information is not compulsory. If an applicant chooses to disclose <u>discloses</u> such information in its listing document, this should at least be reviewed by the applicant's sponsor.</p> <p>An applicant with material changes in its financial, operational and/or trading position after the trading record period should refer to Guidance Letter HKEXx-GL41-12 for the additional disclosures</p> <ul style="list-style-type: none"> • significant non-recurrent items in income statements.

Key areas	Purposes	Recommendations <u>Disclosure recommendations</u>
Listing expenses <i>(Updated in July and November 2013 and January 2015)</i>	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 (i) of such expenses (e.g. a breakdown of the amount of listing expenses charged to the income statement/ or as equity during the Track Record Period, and/ or that will be charged to the income statement/ equity after the Track Record Period) of such expenses <u>the relevant time periods)</u>
Future plans and prospects <i>(Updated in June 2015)</i>	Provide investors <u>with</u> an idea of an applicant's future plans and prospects.	<ul style="list-style-type: none"> detailed breakdown of the use of proceeds for various future plans and the expected timing of the use of proceeds in bullet or table form, <u>with cross references to details in the "Use of Proceeds" section</u>
	Information on an applicant's dividend policy , including historical significant distributions and expected dividend payout ratio, enables to enable investors to assess its dividend payout trend and intentions.	<ul style="list-style-type: none"> expected dividend pay-out ratio and, significant distributions <u>and material matters that should be drawn to investors' attention</u> 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, specifically state that the company does not have any dividend policy <p><u>Do not include:</u></p> <ul style="list-style-type: none"> <u>detailed description of dividend policy</u>

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".~~

² ~~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".~~

³ ~~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".~~

Key areas	Purposes	Recommendations <u>Disclosure recommendations</u>
<i>Offer related information and Profit Forecast</i>	Key information for investors who wish to subscribe for an applicant's shares	<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 in a listing document, <u>the</u> forecast P/E ratio (or other meaningful financial ratio derived from the profit forecast) for investors' reference • 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

Key areas	Purposes	<u>Recommendations</u> <u>Disclosure recommendations</u>
Other information	Highlights of any other significant matters or issues affecting an applicant or the offering.	<p>For example:</p> <ul style="list-style-type: none"> • material non-compliance and compliances, litigation incidents and other material events (e.g., product recalls) • <u>a description of the most material risks to an applicant and cross reference to the “Risk Factors” section</u> • non-standard ongoing waivers granted • other material company/industry-specific information, if any (e.g. for introduction cases liquidity measures, information on share price/trading volume, etc.; for , a wavier of a continuing connected transaction that has a term of more than 3 years) • <u>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)</u> • 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 on laws and regulations, etc.) • <u>for novel overseas jurisdictions – highlights of unusual laws and regulations, etc.</u>

HKEx GUIDANCE LETTER B. “Risk Factors” section

Listing Rules HKEx-GL54-13 (May 2013)

Subject	Simplification Series – Disclosure in listing documents for IPO cases – the “Risk Factors” section
Listing Rules and Regulations	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
Related Publications	Main Board IPO Checklist I.N. – Standard Comment 4.10 GEM Board IPO Checklist I.T. – Standard Comment 4.10
Author	IPO Transactions Department

~~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~~*

- ~~1. Main Board Rules 2.03(2), 2.13(2), 11.07 and 19A.42~~
- ~~2. 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

- ~~1. None~~

~~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 gives guidance on the disclosure in the “Risk Factors” section in listing documents. It supersedes standard comment 4.10 of Main Board IPO Checklist I.N. and GEM Board IPO Checklist I.T.. Specifically, it aims to ensure that the section:-~~

- ~~— is concise, organised logically, easy to read and in plain language;~~
- ~~— is relevant to applicants, and provides sufficient information to help investors understand and focus on the specific risks that affect the applicants, their operations or securities before making informed investment decisions; and~~

~~— explain how the risk affects the applicant or the securities being offered.~~

~~1.2 The Exchange expects applicants to follow this guidance letter when preparing listing applications. A listing document that does not follow this guidance may be considered not substantially complete.~~

~~1.3 However, whilst this guidance letter discusses good practice as to the presentation of risk factors it is not the role or intention of the Exchange to dictate to an applicant what the applicant should, or should not, disclose as being the risk of making an investment in its securities. There may be significant legal and/ or regulatory consequences if an applicant does not appropriately disclose the risks it is subject to. The applicant has the sole responsibility for determining what risks it wishes to include in the “Risk Factors” section of its listing document.~~

~~2. Relevant Listing Rules~~

~~2.1 Main Board Rule 2.03(2) (GEM Rule 2.06(2)) requires that potential investors are given sufficient information to enable them to make a properly informed assessment of an issuer.~~

~~2.2 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, the issuer must not, among other things:-~~

~~(a) omit material facts of an unfavourable nature or fail to accord them with appropriate significance;~~

~~(b) present favourable possibilities as certain or as more probable than is likely to be the case; or~~

~~(c) present risk factors in a misleading way.~~

~~2.3 Main Board Rule 11.07 (GEM Rule 14.08(7)) sets out an overriding general duty of disclosure for the content of a listing document.~~

~~2.4 Main Board Rule 19A.42 (Paragraph 67 of Part A of Appendix 1 to the GEM Rule) sets out certain additional risks to be included in the listing documents for PRC applicants.~~

~~2.5 GEM Rule 14.22 sets out certain principles that should, as a minimum, be taken into account to give appropriate prominence to any risk factors in the listing documents which should be drawn to shareholders’ and prospective investors’ attention. These include: (i) whether or not there are risks that are relevant to the issuer itself; (ii) whether or not there are risks that are relevant to the issuer’s business; and (iii) whether or not there are risks on a macro-scale that are relevant to the issuer.~~

~~3. Guidance~~

3.1 ~~The “Risk Factors” section should be presented in a way that is concise, organised logically, easy to read and uses plain language. The goal in the risk factor disclosures, as in all disclosures to the market, should be clarity and not merely brevity. The “Risk Factors” section should include all the material risks associated with investing in an applicant. It should explain why these risks are material from investors’ perspective so that investors have a basis on which they can to make a properly informed assessment of the applicant and of an investment in its securities. It should explain why these risks are material from investors’ perspective~~

3.2 ~~Set out below are some guidance and principles on disclosure of risk factors.~~

Risks should be relevant to listing applicants

3.3.2 ~~The section should only present risks that are relevant to the particular applicant and should explain clearly how these risks are related/ apply to, and have a significant effect on, that applicant, its industry and/ or the offering.~~

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

3.5 ~~The “Risk Factors” section should focus on the risks and on explaining the nature and extent of these risks. The section should not merely describe the circumstances that give rise to a risk and fall short of explaining what the risk is. The risk factor should avoid unnecessary factual background and should provide only enough detail to place the risk in context. There should, if possible and meaningful, this should be in the form of quantitative disclosure of the likely impact of the risks, in addition to qualitative disclosure, to allow investors to assess the magnitude and impact of the risks on the applicants’ business operations and financial position. If the likely impact cannot be ascertained, disclose the maximum quantitative impact, if possible.~~

3.5.3.6 ~~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 should 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

3.6.3.7 ~~Each risk factor should focus on disclosing a single, specific principal risk and should avoid bundling together disclosures on multiple risks. Closely related~~

risks, however, should not be unbundled into multiple separate risk factors if this results in undue repetition and overlapping of disclosures.

3.8 Avoid multiple risk factors that address the same principal risk.

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

~~3.73.9~~ Risk factor disclosures should relate to risks that applicants are unable to mitigate adequately. Where mitigation is not difficult an applicant should be capable of mitigating the risk, do not include a risk factor mainly just because the applicant may not deal with/carry out the event or activity/ mitigation adequately. For example, it is not appropriate to include the applicants' 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 legitimate and specific reason that gives rise to this uncertainty to comply.

~~3.83.10~~ Risk factor disclosures 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

~~3.93.12~~ Related risk factor disclosures 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.

~~3.403.13~~ 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 “*Our Reliance on our top five customers which accounted for 75% of our revenue and any decrease in our sales to any one*

~~of them would affect our operations and financial results” additionally~~ describes the risk.

Order from the most to least ~~important~~ material

~~3.413.14~~ As a general principle, applicants should seek to set out risk factors in an order that reflects their relative significance. Within each sub-section of risk factors, applicants should similarly seek to present the risk factors in order from most to least ~~important~~ 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

~~3.423.15~~ 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, ~~and to give a better assessment of the risk factor and how the applicant intends to mitigate it.~~ Cross-referencing ~~these~~ the risk factors to ~~the~~ relevant disclosures in other sections of the listing document may be appropriate.

Consistent disclosure

~~3.433.16~~ 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.

~~Remove~~ Exclude outdated risk factors

~~3.443.17~~ The section should ~~remove~~ 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. ~~The relevant~~ However, uncertainties may no longer exist after years of implementation ~~of the law so that the relevant~~. In this context, a risk factor may become on uncertainties of the law is unlikely to be irrelevant and so should not be included in the section.

Avoid disclaimer statements that lack specificity

~~3.453.18~~ The purpose of the risk factor disclosures 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 is ~~discouraged~~ should be avoided.

C. “Industry Overview” section

Listing Rules ****

HKEX GUIDANCE LETTER

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

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
Author	IPO Transactions Department

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.~~

1.

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

2. Related publications

- ~~- HKEXx-GL8-09 (first published in July 2009) – Statistics and data quoted in prospectuses~~

3. Guidance

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

~~3.2 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 provideprovides 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

~~3.3 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.

~~3.4~~ ~~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

~~3.5~~ ~~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~~house; (3) the parameters and assumptions used when these data or statistics ~~were prepared~~(including forward-looking data) were collected and analysed; 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

~~3.6~~ ~~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 all historical market information in this section should be at least updated to the latest financial year immediately preceding the issue of the listing document~~ 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 in this section.

~~3.7~~ ~~3.10~~—An applicant’s directors should confirm in this section ~~that~~, after ~~taking~~ making reasonable care, ~~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~~ ~~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.

~~3.9~~ ~~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

~~3.10 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.~~

~~3.11 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 a 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

~~3.12 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~~ and in other sections of a listing document legible size, 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 fluctuations. It ~~would~~ is also be helpful to investors ~~if~~ for an applicant ~~explains in the section~~ to explain how the change of any changes to its major raw material prices affected the selling prices of its final products historically.

D. “History and Development” section

Listing Rules

HKEx GUIDANCE LETTER

HKEx-GL49-13 (January 2013) (Updated in July 2013) – effective for applications submitted on or after 1 October 2013

Subject	Simplification Series – Disclosure in listing documents for IPO cases – the “History and Development” 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-LD43-3 – Contractual Arrangements
Author	IPO Transactions Department

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 “History and Development” section in listing documents. Specifically, it aims to ensure that the section:-

— is concise, easy to read and in plain language; and

- is relevant to applicants, and provides sufficient information to help investors understand the history and development of the applicants.

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, the applicant must not, among other things:-~~

~~(a) omit material facts of an unfavourable nature or fail to accord them with 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.~~

1.

~~- Main Board Rules 2.13(2) and 11.07~~

~~- GEM Rules 14.08 (7) and 17.56(2)~~

2. Related publications

~~- HKExHKEX-LD43-3 – Contractual Arrangements~~

3. General Guidance

~~3.1 We have noted in previous listing documents that applicants often included information which was not material and took up many pages. Only historical developments which investors will need to know to make an informed investment decision should be disclosed. The “History and Development” section should only include material information on an applicant’s establishment, development, corporate structure and shareholding. It should also be in plain language. 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.~~

~~3.2 Below are some guidance and principles on Cross-referencing to relevant disclosure generally found in the contents of the “History and Development” section in listing documents, and applicants only need to make relevant disclosures and not on all information mentioned below. this section. Applicants should make cross-references to provide more detail on the subject matter and in other sections of the listing documents, to avoid duplication of information in the listing documents. if necessary.~~

~~——Disclosures in listing documentthis section~~

~~3.3 A listing document This section should usually include the following information:~~

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

- ~~• when and by whom the listing group was founded~~
- - _____ information on founders (i.e. background and relevant industry experience if the information is not disclosed in the “Directors and Senior Management” section)
- ~~• how the founders financed the business when it was first established~~
- - _____ 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 **(Updated in July 2013)**

(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 for listing
- - _____ 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
- ~~• where structured contracts/contractual arrangements are used, please refer to Listing Decision HKEx-LD43-3~~
- - _____ the material steps of any reorganization (i.e. incorporation, share swap, disposal and acquisition)
- - _____ whether relevant regulatory approvals from the relevant authorities for reorganizations have been obtained and/or that 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. 7537 of PRC State Administration of Foreign Exchange, if applicable **(Updated in July 2013)**⁴
- - _____ reasons for excluding certain companies/businesses from the listing group if they are in the same or ancillary businesses

(c) *Acquisitions, disposals and mergers*

⁴ 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.

- - _____ 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 **(Updated in July 2013)**
- - _____ whether each of the acquisitions, disposals and mergers has been properly and legally completed and settled ~~(Updated in July 2013)~~, including all applicable regulatory approvals having been obtained
- - _____ the transferor/transferee's relationship with the applicant, its shareholders or connected persons or ~~the fact that they are independent third parties~~ **(Updated in July 2013)**
- ~~whether approvals from the relevant authorities have been obtained~~

(d) *Shareholders*

- - _____ shareholders' identities
- - _____ relationship amongst shareholders (e.g. family members, relatives, and parties acting in concert)
- - _____ for ~~major~~ significant shareholding changes⁵ 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
- ~~pre-IPO investments as set out in Guidance Letters HKEx-GL43-12 and HKEx-GL44-12~~ **(Updated in July 2013)**
- - _____ details of outstanding options, warrants and convertibles **(Updated in July 2013)**

(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 ~~our~~ investors' attention
- ~~where the applicant has been privatized, details of the privatization, if applicable (including the amounts paid/consideration offered to the investors and then shareholders, how the privatization was financed, and, if the purchase/privatization offer price offered to the investors)~~

⁵ ~~Material shareholding changes which are important for investors to make an informed decision on the applicant~~

HKEx GUIDANCE LETTER

~~HKEx-GL50-13 (January 2013) (Updated in July 2013 and March 2014) – effective~~the IPO offer price are materially different, reasons for applications submitted on or after 1 October 2013

Subject	Simplification Series – Disclosure in listing documents for IPO cases – the “Business” section
Listing Rules and Regulations	Main Board Rules 2.13(2), 11.07, Paragraphs 28 to 31 of Part A of Appendix 1 and Appendix 27 GEM Rules 14.08(7), 17.56(2), Paragraphs 28 to 31 of Part A of Appendix 1 and Appendix 20
Related Publications	HKEx-GL19-10, HKEx-GL26-12, HKEx-GL28-12, HKEx-GL30-12, HKEx-GL36-12, HKEx-GL48-13, HKEx-GL63-13 and HKEx-LD107-1 (Updated in July 2013)
Author	IPO Transactions Department

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.*
difference

E. “Business” section

Listing Rules

1. Purpose

~~1.1 This letter provides guidance on the extent of disclosure in the “Business” section in listing documents. Specifically, it aims to ensure that the section:-~~

~~— is concise, easy to read and in plain language;~~

~~— is relevant to an applicant, and provides sufficient information to help investors understand the applicant’s business model.~~

~~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

1.

~~2.1 - Main Board Rule Rules 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 with 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 qualifications or explanation.~~

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

~~2.3 , and Paragraphs 28 to 31 of Part A of Appendix 4A to the Main Board and GEM Rules set out disclosure requirements for listing documents. 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 We noted on disclosure of land use rights in previous listing documents that applicants included information which was not material and took up many pages. Only information in relation to the PRC~~

- HKEXx-GL26-12 – Business models with significant forfeited income from prepayments
- HKEXx-GL28-12 – Restaurant operators
- HKEXx-GL30-12 – Disclosure of intellectual property rights
- HKEXx-GL36-12 – Distributorship business
- HKEXx-GL63-13 – Disclosure of material non-compliance incidents
- HKEXx-LD107-1 – Whether heavy reliance on a major customer would render Company A unsuitable for listing

3. General Guidance ~~model which investors will need to know to make an informed investment decision should be disclosed.~~

~~2.43.1 We noted in previous listing documents that applicants included information which was not material and took up many pages. Only information in relation to the business model which investors will need to know to make an informed investment decision should be disclosed. The “Business” section should only properly explain the material components of an applicant’s business model in a simple and easy to understand manner, and include information on keys 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); and
- on-going measures to monitor the effectiveness of these policies, procedures and measures.

~~2.5 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 are do not commensurate with match the credit policy in the “Business” section especially when, or if extended credit policy is given to specific customers).~~

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.

~~2.6 Applicants should make cross-references to other relevant sections in the listing documents to provide more details on the subject matter and to avoid duplication of information in the listing documents. Information should not be duplicated except in the “Summary” section where information to be highlighted needs to be summarized.~~

3.4 The “Business” section should explain an applicant’s business model. It should also include information on keys areas e.g. market and competition, suppliers,

~~customers, production, products and services, etc. 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~~

~~2.7~~

~~2.8 We have set out in Appendix 1 a list of key areas that are generally found in the contents of the “Business” section in listing documents. Applicants only need to make relevant disclosures and not on all key areas and examples mentioned in Appendix 1. Please note that the list is not exhaustive and does not include all disclosure requirements under the Listing Rules and the Companies Ordinance⁶ **(Updated in March 2014).**~~

~~2.9 Applicants should include in this section the listing documents applicant’s risk management policies and procedures in place and explain how to these policies and procedures mitigate the relevant risks identified in the “Risk Factor” 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); and~~

~~_____ on-going measures to monitor the implementation effectiveness of risk management these policies and, procedures and corporate governance measures.~~

~~2.103.6 Where possible, Applicants are recommended to present information using tables, charts and diagrams to ensure clear, concise and precise disclosure.~~

~~****~~

~~⁶ Retitled as the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) with effect from March 2014.~~

4. List of key areas generally 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 contents of the “Business” section in listing documents.

Key areas	Examples	Reference <u>Relevant</u> guidance
Business model	<ul style="list-style-type: none"> • The nature and the major functions of an applicant’s businesses. There should be a balanced disclosure on an applicant’s businesses based on their, taking into account each business’ scale and contribution to -an applicant • Any change in the business focus during the track record period (should make and, where applicable, include cross-references to relevant disclosure in the key area “Products and services” for details) • section) 	<p>Guidance Letter HKEX-GL26-12</p> <p>Guidance Letter HKEX-GL28-12</p>
Market and competition ⁷	<ul style="list-style-type: none"> • The industry in which it operates (whole market rather than a subset of market), industry maturity and size, and market trends and prospects • Market share and industry ranking, level of competition, whether the market is fragmented or dominated by key players and barriers of entry into the industry 	
Strengths, strategies and future plans	<ul style="list-style-type: none"> • Competitive strengths (e.g. low production cost, high quality products, good relationship with customers and suppliers, etc.) should be substantiated by specific facts in other parts of a listing document • Business strategies (e.g. strengthening sales network, vertical expansion, entering into long-term contracts, <u>acquisitions</u>, etc.) 	

⁷ Please refer to HKEx GL48-13 for similar disclosure required in the “Industry Overview” section in listing documents

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<ul style="list-style-type: none"> • Expansion plans (e.g. <u>reasons for expansion</u>, site selection, expected capacity, breakeven period and investment payback period together with the assumptions, etc.) and how an applicant will implement such plans together with the time frame, capital expenditure requirements, amounts spent/ to be spent, timing for payments, and source of funding (Updated in July 2013) • Whether If an applicant has identified any acquisition targets (if not, an appropriate negative statement) and details of the selection criteria • If there is going. If applicable, include <u>cross references</u> to the “Use of Proceeds” section for details • If any change in business focus is planned, reasons for the change and the <u>any</u> related change in cost structure, profit margins and risk profile • <u> </u> 	
Suppliers, raw materials ⁴ <u>materials</u> and inventory	<ul style="list-style-type: none"> • Background of <u>any</u> 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 and largest suppliers during the track record period • Detailed terms and conditions of any long-term agreements ⁸ (e.g. duration, 	

⁸The term “agreement” or “contract” is generally understood to mean that a legally binding relationship has been established between the parties with regard to the performance of certain conduct. If this is not the case, these terms should be avoided so as not to confuse the readers with other terms like “memorandum of understanding”, “memorandum of co operation” or “letter of intent” which are generally understood to be non-legally binding between the parties. Where an agreement is entered into between the parties, there must be clear

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<p>minimum purchase commitment and any penalty if an applicant fails to fulfill the requirement <u>for non-compliance with such commitment</u>, price adjustment provision, renewal and termination clauses) and whether they are legally binding. <u>Details of any breaches of these agreements during the track record period</u></p> <ul style="list-style-type: none"> • Major countries from which <u>where</u> an applicant purchases its raw materials • Concentration risk and counterparty risk, if any • Sensitivity analysis <u>—</u> and breakeven analysis in relation to changes in costs • Any shortage or delay in the supply of raw materials and measures to manage <u>such shortage of inventory</u> (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 • Inventory control measures (e.g. purchase <u>purchases</u> 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 import <u>imports</u>, fur, wood, diamond) 	<p>Listing Decision HKEX-LD107-1</p>

~~description of the extent to which parties are bound (e.g. whether the agreement merely binds the parties to further negotiate the salient terms of the agreement, without promise of agreeing on any terms; or whether it creates commitments that one party may enforce against the other party). There should also be consistent description of the agreements or contracts entered into by the applicant and its business partners throughout the listing document (Updated in July 2013).~~

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<ul style="list-style-type: none"> • <u>diamonds)</u> 	
<p>Production</p> <p><u>(Only if applicable to the applicant's business)</u></p>	<ul style="list-style-type: none"> • Operation flows, production processes and production time (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 <u>or exceedingly high</u> utilization rates or, and basis for <u>calculating</u> utilization rate exceeding 100% during the track record period<u>rates</u>) • Major asset and equipment (whether they are leased or owned, —repair and maintenance history, age, depreciation method and time for replacement or upgrade) • Justification for planned expansion of production lines, if applicable • <u>_____</u> 	
<p>Subcontracting</p> <p><u>(Only if applicable to the applicant's business)</u></p>	<ul style="list-style-type: none"> • Reasons for subcontracting and basis of selecting subcontractors Background, Details of subcontractors, including years of business relationship with an applicant and whether they are independent third parties • Salient terms of the subcontracting arrangements/agreements²<u>agreements</u> (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) • <u>_____</u> 	
<p>Quality control</p>	<ul style="list-style-type: none"> • Composition of the quality control team and their professional qualifications and industry experience • Details of an applicant's quality control 	

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<p>measures over the suppliers, subcontractors and its own products</p> <ul style="list-style-type: none"> Industry standards (e.g. International Organization for Standardization (ISO)) and other certification, including certification requirements and how an applicant obtained relevant certification (e.g. by application or by entering into a competition) 	
Products and services	<ul style="list-style-type: none"> Product and service types, product life cycle <u>and, seasonality and, if applicable, changes to product mix during the track record period</u> Pictures of products sold, price ranges by brands and product types, and reasons for material fluctuations during the track record period, and future price trends Any change in business focus, reasons for the change and the related change in cost structure, profit margin and risk profile <u>_____</u> 	
Sales and marketing	<ul style="list-style-type: none"> Direct sales or through distribution channels (e.g. through trading companies, <u>franchiser</u> and distributors) Movement of point of sales opened and closed during the track record period and reasons for closure of point of sales <u>in table format</u> Pricing: <u>policy (e.g., fixed price or cost plus policy), and any rebates</u> Advertising, sales incentive, promotion and discounts <u>_____</u> 	Guidance Letter HKEX* <u>-GL36-12</u>
Customers	<ul style="list-style-type: none"> Background of <u>any</u> major customers (e.g. 	

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<p>provisioning policy and the amount of provision during the track record period</p> <ul style="list-style-type: none"> • Allocation of liability for product defects between an applicant and its suppliers • Any<u>Customer complaints policy (including procedures for handling complaints) and any</u> customer complaints, product recalls or product liability claims • <u>during the track record period</u> 	
Insurance	<ul style="list-style-type: none"> • Policies undertaken, risks not being covered and whether the insurance coverage is adequate and is in line with the industry norm • <u>Include cross references to the “Risk Factor” section, if applicable</u> 	
Research and development matters	<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 agreements²<u>agreements</u> with third parties (including the cost/ profit/ loss sharing arrangement, who owns the intellectual property rights, fees paid to third parties) • <u>), and whether they are legally binding</u> 	
Health, work safety, social and environmental matters	<ul style="list-style-type: none"> • System of recording and handling accidents and implementation of the policies and the applicant’s health and work safety compliance record 	Main Board <u>Rule</u> <u>Rules</u> Appendix 27 and GEM Board <u>Rule</u> <u>Rules</u>

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<ul style="list-style-type: none"> • Number of material accidents in the course of an applicant's operation, whether there were any claims for personal or property damages, and compensation paid to employees • Occupational safety measures, staff issues and environmental protection policies •—Material information about an applicant's environmental obligations under applicable laws and regulations or other voluntarily adopted measures (including the annual cost of compliance with applicable rules and regulations during the track record period and the expected cost of compliance going forward) • <u> </u> 	Appendix 20
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 • <u> </u> 	Guidance Letter HKEX x -GL30-12
Employees	<ul style="list-style-type: none"> • Number of employees by function and geographic location • Training and recruitment policies • Labor unions and <u>any labor disputes</u> •—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 	

Key areas	Examples	Reference <u>Relevant</u> <u>guidance</u>
	<ul style="list-style-type: none"> • 	
Properties <i>(Updated in July 2013)</i>	<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 <i>(Updated in July 2013)</i>	<ul style="list-style-type: none"> • <u>Details of material compliance matters</u> <u>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 non-compliance, 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</u> 	Guidance Letter HKEX-GL63-13
Bankruptcy, receivership, claims, or litigation <i>(Updated in July 2013)</i> <u>Litigation</u>	<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) • 	
<u>Hedging Risk management and internal control systems</u>	<ul style="list-style-type: none"> • <u>Details of an applicant's risk management and internal control systems, including measures over quality control market risk, credit risk and operational risk</u> • <u>Composition of applicable risk management committees, including professional qualifications and industry experience</u> • 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, the stop-loss limit) 	

Key areas	Examples	Reference <u>Relevant</u> guidance
	<ul style="list-style-type: none"> • Nature and duration of each type of contract used and the key terms for each of the hedging contracts entered into during the track record period and up to the latest practicable date • An) and an applicant's net hedging position (including the maximum outstanding exposure under its derivative financial instruments and the expiry date) • The detailed risk control measures and identities and experiences of the personnel who are responsible for the approval and monitoring of the activities • _____ 	
Licenses & permits <u>and approvals</u>	<ul style="list-style-type: none"> • Whether<u>That</u> an applicant has obtained all material requisite licenses, permits and approvals for its operation, when they were granted <u>and</u>, when they will expire <u>and whether they are required to be renewed</u> • Status of renewal of licenses, expected timeframe and, with the support of legal opinion, whether there is any legal impediment to renew<u>renewing</u> the licenses • _____ 	
Awards	<ul style="list-style-type: none"> • Only material awards should be included and summarized in a tabular format 	

HKEx GUIDANCE LETTER

HKEx-GL59-13 (July 2013) (Updated in March 2014) – effective for applications submitted on or after 1 October 2013

Subject	Guidance on management discussion and analysis on the historical financial information (“MD&A”) in listing documents
Listing Rules and Regulations	Main Board Rules 2.13(2), 11.07, Paragraph 34 of Appendix 1A, Paragraphs 32 and 47(2) of Appendix 16 GEM Rules 14.08(7), 17.56(2), 18.41 Paragraph 3 of the Third Schedule to the Companies Ordinance⁹ Paragraph 17.8 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “Code of Conduct”)
Related Publications	HKEx-GL37-12 – Guidance on indebtedness, liquidity, financial resources and capital structure disclosure in listing documents HKEx-GL38-12 – Guidance on the Latest Practicable Date and the latest date for Liquidity Disclosure in listing documents
Author	IPO Transactions Department

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 expected disclosure in the MD&A in listing documents. Specifically, it aims to ensure that the MD&A:-

— is concise, easy to read and in plain language, and

⁹ Retitled as the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) with effect from March 2014.

~~— provides meaningful discussion and analysis of an applicant's financial information to help investors understand an applicant's past performance, present position and future prospects.~~

~~1.2 The Exchange expects 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.~~

~~2. Applicable Rules and Regulations~~

~~*Listing Rules*~~

~~2.1 Main Board Rule 2.13(2) (GEM Rule 17.56(2)) requires that the information in a listing document must be accurate and complete in all material respects and not be misleading or deceptive. In complying with this rule, an applicant must not, among other things:—~~

~~(a) omit material facts of an unfavourable nature or fail to accord them with 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)) requires that all listing documents issued by an applicant must, as an overriding principle, contain particulars and information which, according to the particular nature of an applicant and the securities for which listing is sought, is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the applicant and of its profits and losses and of the rights of the securities.~~

~~2.3 Paragraph 34(1) of Appendix 1A to the Main Board Rules requires all listing documents to include (a) general information on the trend of the business of the group since the date to which the latest audited accounts of an applicant were made up; (b) a statement as to the financial and trading prospects of the group for at least the current financial year, together with any material information which may be relevant, including all special trade factors or risks (if any) which are not mentioned elsewhere in the listing document and which are unlikely to be known or anticipated by the general public, and which could materially affect the profits; and (c) the state of the group's order book (where applicable) and prospects for new business including new products and services introduced and announced.~~

~~2.4 Paragraph 47(2) of Appendix 16 to the Main Board Rules requires all listing documents to include a discussion and analysis of the group's performance during the period covered by the accountants' report covering all those matters set out in paragraph 32 of Appendix 16 to the Main Board Rules.~~

~~2.5 Paragraph 32 of Appendix 16 to the Main Board Rules requires disclosure on the discussion and analysis of the group's performance and the material factors underlying its results and financial position and that the disclosure should emphasize trends and identify significant events or transactions during the years under review.~~

~~2.6 GEM Rule 18.41 requires all listing documents to include, among others, (a) a discussion and analysis of the group's performance and the material factors underlying its results and financial position, with an emphasis on trends and significant events or transactions during the years under review; (b) the state of the group's order book (where applicable) and prospects for new business including new products and services introduced and announced; and (c) comments on changes in market conditions, new products and services introduced or announced and their impact on the group's performance and changes in turnover and margins.~~

~~**Companies Ordinance¹ (Updated in March 2014)**~~

~~2.7 Paragraph 3 of the Third Schedule to the Companies Ordinance¹ requires a prospectus to contain sufficient particulars and information to enable a reasonable person to form a valid and justifiable opinion of the shares and the financial condition and profitability of the company at the time of the issue of the prospectus, taking into account the nature of the shares being offered and the nature of the company and the nature of the persons likely to be consider acquiring them.~~

~~**Code of Conduct**~~

~~2.8 Paragraph 17.8 of the Code of Conduct requires that a sponsor should in conjunction with the management of an applicant and its other advisers prepare relevant, adequate and comprehensible MD&A that should:~~

~~(a) avoid excessive or irrelevant disclosure that may overwhelm investors and act as an obstacle to identifying and understanding material matters and critical information;~~

~~(b) focus on matters that materially impacted upon historical financial performance or condition;~~

~~(c) analyse and explain material fluctuations in the financial items and amounts with specific and substantive reasons;~~

~~(d) discuss material factors or events that are likely to impact future financial performance or condition; and~~

~~(e) identify and discuss from an investor's perspective any exceptional items or unusual accounting treatments that require further enquiry or disclosure by, amongst other things, making reference to disclosure or treatments adopted by comparable companies.~~

3. Guidance

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 indebtedness, liquidity, financial resources and capital structure disclosure in listing documents
- HKEX-GL38-12 – Guidance on the Latest Practicable Date and the latest date for Liquidity Disclosure in listing documents

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, companies 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) ~~disclosure should be clear, straightforward, consistent with its related financial statements and focus on the most important and material information. In addition, 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 ~~not be included~~excluded;

~~(b) integrated information should be provided to create a context to interpret an applicant's financial position, financial performance and cash flows;~~

~~(c)~~(b) cross~~references~~referencing to other relevant disclosure in other sections of the listing documents should be made to provide more details on the subject matter and to avoid duplication of information if necessary within the listing document. ~~For example, the disclosure on forward looking statements and matters affecting an applicant's future performance can be cross-referenced to the "Future Plans and Prospects" section of the listing document, and disclosure on basis of presentation, critical accounting policies and estimates, and risk analysis can be cross-referenced to the Accountants' Report; and~~

~~(d)~~(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. ~~These are not exhaustive and do not include all disclosure requirements under the Listing Rules.~~

Key Factors Affecting the Results of Operations

3.5 ~~This part of the MD&A should h~~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;

~~—~~— an applicant's lines. For example, in the case of a PRC banking business, locations of operations, principal products, market conditions such as the interest rate environment and services and product mix;

~~-~~- the unique regulatory challenges of operating a banking business process (e.g. sales and distribution channels/methods, pricing policy, production facilities and arrangements, procurement, etc.) and how an applicant creates value, earns revenue and income and generates cash 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 This part of the MD&A should 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:~~

- ~~3.6 - _____ in relation to revenue recognition policies, instead of reciting the accounting policy 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 and/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. Do not disclose all permissible treatments and not sState which treatment has been adopted by the applicant and do not disclose all permissible treatments.~~

~~3.7 For critical accounting estimates and assumptions (eg. estimated useful life and residual values of property, plant and equipment; bad debt provisions; valuation of investment properties and impairment assessment),² 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 This part of the MD&A should provide information about the quality of, and potential variability of, an applicant's Financial Information, so that investors are able to understand whether an applicant has delivered results in line with expectations and, implicitly, how well management has understood the applicant's market, executed its strategy and managed its resources.~~

~~3.93.8 Disclosure should provide clear descriptions of an applicant's financial and non-financial performance, such that it is 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 the future performance and management's assessment of an applicant's prospects, how resources that are not presented in the financial statements affected an applicant's operations, how non-financial factors have influenced the information presented in the financial statements, and explanations for the significant items in the financial statements and their material fluctuations during the track record period. Presenting a summary of the key financial ratios of an applicant during the track record period and a management discussion on the material fluctuations of these ratios can provide investors a better understanding of an applicant's performance and an easier comparison with those of its industry peers.~~

~~3.10 The analysis of significant changes in the Financial Information should not recite financial statement information in narrative form with little or no meaningful explanation of the events causing the fluctuations in an applicant's financial performance, or presenting boilerplate discussions that do not provide insights into an applicant's past performance and future prospects.~~

~~Examples of explanationsdisclosure 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; the decrease in accounts receivables turnover days is due to the increase in sales (i.e. in terms of the calculation formula without providing the reasons/ explanation of the events causing the fluctuations).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.~~

~~3.113.9 _____ Where there have been significant changes in the world'sapplicant's conditionindustry such as global financial crisis, material changes to commodities prices and, 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.~~

~~3.123.10 _____ 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 must possess theshould be based on qualitative and quantitative characteristics, including faithful representationsinformation, and thus must be neutral.~~

~~3.133.11 _____ SpecificAdditional disclosures on the following items should be made in the MD&A:~~

- (a) ~~Details~~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~~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, ~~and whether they~~. 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~~applicable tax rate ~~(which an applicant is subject to, and details of any preferential tax treatments, tax benefits or special tax arrangements) which an applicant is subject to (and when these tax benefits or special tax arrangements will expire. [their expiry dates]).~~ (Note. If expiry is within one year, a risk factor in the "Risk factor~~Factors~~" section is recommended];);
- (d) ~~Details on whether an applicant has paid all relevant taxes and 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) ~~Post~~any post balance sheet events (including share ~~subdivisions~~subdivisions, share ~~consolidation~~consolidations, and declaration and payment of ~~dividend~~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~~Accountants' Report, including relevant post-adjustments financial indicators such as earnings per share.

Liquidity and Capital Resources

~~3.143.12~~ This part of the MD&A should provide a clear picture of an applicant's ability to generate cash and to meet existing and 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 or, 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

Listing Rules

~~HKEx GUIDANCE LETTER~~

~~HKEx-GL72-14 (January 2014)~~

Subject	Simplification Series – Disclosure in listing documents for IPO cases – the “Applicable Laws and Regulations” section
Listing Rules and Regulations	Main Board Rules 2.13(2), 11.07, 13.90, 19.10(2) & (3) and paragraph 7 of Appendix 1a GEM Rules 14.08(7), 17.56(2), 17.102, 24.09(2) & (3) and paragraph 7 of Appendix 1a
Related Publication	Joint Policy Statement (27 September 2013) regarding the listing of overseas companies
Author	IPO Transactions Department

~~**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 “Applicable Laws and Regulations” 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 laws and regulations 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.~~

~~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.~~

~~1. 3. —~~

~~- 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~~

~~- Joint Policy Statement (27 September 2013) regarding the listing of overseas companies~~

~~3. General guidance~~

~~3.1 Applicants usually include “Applicable Laws and Regulations” section in their listing documents.~~

~~3.2 —~~

~~3.1 The “Applicable Laws and Regulations” section normally describes the rules and regulations that are material to applicant’s current and/ or future business.~~

~~3.3 As a guide, applicants may consider including the information in the section elsewhere in listing documents instead of a standalone section as is the current practice. This may help investors to discern the laws and regulations to an applicant’s business more easily.~~

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

Avoid use of legalistic language

~~3.2 3.5 —The “Applicable Laws and Regulations” section is no different to 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. Legalistic language should be avoided. Long or complex~~

~~descriptions should be split into short sentences or bullets and the titles of laws and regulations should be defined using a concise definition rather than repeating the full title throughout a subsection. The use of overly long sentences and legalistic language has often led to this section being excessively long, difficult to understand and hard to read.~~

Key laws and regulations of the relevant jurisdictions

~~3.6—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 a boiler-plate 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).~~

~~3.3~~ 3.7—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).

~~3.8—The description of laws and regulations should be proportionate to their importance to the applicant. For example, if a relatively small percentage of an applicant’s revenue and profits are derived from a particular jurisdiction and there are unusual or onerous laws and regulations affecting the applicant in that jurisdiction, the disclosure should be appropriately brief, and the applicant should consider whether it is necessary to include disclosure at all on the grounds that it may not be material to investors.~~

Key changes in the laws and regulations

~~3.4~~ 3.9—ChangesFuture 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 Factor” sections to describe the impact of the laws and regulations changes on the applicant, and its plans and procedures implemented or to be implemented to deal with such changes in laws and regulations.

~~3.5~~ 3.10—Changes in laws and regulations during or prior to the track record period do not need to be disclosed unless (1) the applicant is subject to grandfathering provisions, in which case the relevant laws and regulations should be disclosed together with details of the new laws and regulations that will apply (including when they will apply); or (2) such changes in laws and

~~regulations continue to have had a material impact on the applicant's business, which may generally be disclosed elsewhere 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" or "Financial Information" section) with a cross reference within the "Applicable Laws and Regulations" section where the current law or regulation is described.)~~

Relevance to the applicant

~~3.11 This section should not be an abstract summary of the relevant laws and regulations. It should disclose clearly how each law and regulation is relevant to the applicant, unless it would be obvious to an average investor.~~
non-compliance

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

Highly regulated industries

3.7 ~~3.12~~—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

3.8 ~~3.13~~—Reference is made to the Joint Policy Statement (27 September 2013) regarding the listing of overseas companies.

3.9 ~~3.14~~—The disclosure of regulatory provisions (see Main Board Rules 19.10(2) and (3) and specific disclosure items in paragraphs 63-66 of the Joint Policy Statement) 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.

3.10 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 depository

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.

HKEx GUIDANCE LETTER

HKEx-GL62-13 (July 2013) (Updated in January, March 2014 and December 2015) – effective for applications submitted on or after 1 October 2013

Subject	Disclosure of Directors, Supervisors and Senior Management section in listing documents
Listing Rules and Regulations	Main Board Rules 2.13, 3.08, 3.09, 11.07 and Paragraph 41 of Part A of Appendix 1 GEM Rules 5.01, 5.02, 14.08(7), 17.56 and Paragraph 41 of Part A of Appendix 1 Paragraph 6 of the Third Schedule of the Companies Ordinance¹⁰
Author	IPO Transactions Department

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 “Directors, Supervisors and Senior Management” section in listing documents.
- 1.2 The Exchange expects applicants to follow this letter when preparing their listing applications. A listing document that does not follow this may be considered not substantially complete as required under the Listing Rules.

2. Relevant Requirements

Listing Rules

- 2.1 Main Board Rule 2.13 (GEM Rule 17.56) requires that the information contained in a listing document must be accurate and complete in all material respects and not be misleading or deceptive. In addition, Main Board Rule 11.07 (GEM Rule 14.08(7)) sets out the general duty of disclosure for the content of a listing document.
- 2.2 Main Board Rule 3.08 (GEM Rule 5.01) states that the Exchange expects the

¹⁰ Retitled as the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) with effect from March 2014.

directors to fulfill fiduciary duties and to have duties of skill, care and diligence to a standard at least commensurate with the standard under Hong Kong law ***(Added in January 2014)***.

- ~~2.3 Main Board Rule 3.09 (GEM Rule 5.02) provides that every director of a listed issuer must satisfy the Exchange that he has the character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as a director of a listed issuer ***(Added in January 2014)***.~~
- ~~2.4 Paragraph 41(1) of Part A of Appendix 1 to Main Board Rules and GEM Rules require the full name, residential or business address of every director and senior manager or proposed director and senior manager to be included in the listing documents. In addition, brief biographical details in respect of the directors, proposed directors, senior managers and proposed senior managers of the applicant shall be provided, including name, age, positions held with the applicant and other members of the applicant's group, length of service with the applicant and the group, relevant management expertise and experience including current and past directorships in other listed public companies in the last three years, and such other information of which shareholders should be aware, pertaining to the ability or integrity of such persons.~~
- ~~2.5 Paragraphs 41(3) to (4) of Part A of Appendix 1 to Main Board Rules and Paragraph 41(1) of Part A of Appendix 1 to GEM Rules require that where any of the directors or senior managers are related, or where any director or proposed director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the applicant, that fact shall be stated in a listing document.~~

Companies Ordinance¹ (Updated in March 2014)

- ~~2.6 Paragraph 6 of the Third Schedule of the Companies Ordinance¹ requires the names, descriptions and addresses of the directors or proposed directors to be disclosed in a listing document.~~

A Guide on Directors' Duties (Added in January 2014 and updated in March 2014)

- ~~2.7 Companies Registry published "A Guide on Directors' Duties" (the "**Guide**") providing guidance on the directors' duties of a listed company, which is available on the Companies Registry's website:~~

~~http://www.cr.gov.hk/en/companies_ordinance/docs/Guide_DirDuties-e.pdf~~

- ~~2.8 The Exchange expects the directors of a listing applicant fulfill the requirements under the Guide. Directors of listing applicant who do not follow this guidance may be considered as a breach of the Listing Rules.~~
- ~~2.9 In general the responsibilities and liabilities of directors derive from various sources, including the constitution of the company, case law and statute. If a~~

~~person does not comply with his/ her duties as a director he may be liable to civil or criminal proceedings and may be disqualified from acting as a director.~~

H. “Directors, Supervisors and Senior Management” section

1. Listing Rules and Regulations

- Main Board Rules 2.13, 3.08, 3.09 and 11.07, and Paragraph 41 of Part A of Appendix 1
- GEM Rules 5.01, 5.02, 14.08(7) and 17.56, 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. Guidance

Summarised information of Directors, Supervisors and Senior Management

- 3.1 The ~~front~~first page of the “Directors, Supervisors and Senior Management” section of a listing document should include a table, ~~including 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 director¹¹, supervisor ~~(, if applicable)~~, and senior management, and any relationship among them ~~(if applicable)~~.

Biographies of Directors, Supervisors and Senior Management

- 3.2 The biography of each director, supervisor and senior management should include:

~~(i)~~(a) his/ her academic background (e.g. names and locations of universities or colleges ~~which are accredited by competent accreditation bodies~~¹², 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 ~~(Updated in January 2014)~~;

~~(ii)~~(b) his/ her previous working experience relevant to his/ her present position in the applicant (preferably in tabular format if information is ~~excessive~~extensive), including how he/ she gained access to and possessed relevant industry knowledge and experience in relation to

¹¹ ———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.

¹² ———~~Otherwise, the sponsor should advise the applicant to remove references to the academic accreditation bodies from the listing documents or to disclose the fact that the academic accreditation bodies are not authorised to do so. If the relevant university or college is not accredited by competent bodies, this information should be specifically disclosed.~~

the applicant's businesses, the 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; ~~and~~

~~(iii)(c) his/ her~~any current ~~and/or~~ past directorships in ~~any~~-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 non-compliances 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 in the "Directors, Supervisors and Senior Management" section:-

~~(i)(a)~~ the role and composition of audit committee, remuneration committee, nomination committee, and other committees (, if applicable) and identify, including the identity of the chairperson of each committee;

~~(ii)(b)~~ the directors, supervisors and senior management's remuneration, and incentive plan for senior management and key employees; and

~~(iii)(c)~~ any deviation from the Code Provisions of Appendix 14 to Main Board Rules (Appendix 15 to GEM Rules) (e.g. why reasons for the same individual acts acting as chairman and chief executive officer, succession plan, etc.).

3.4 ~~Any references to directors of the listing applicant which~~ 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 (Updated in January 2014 and January 2015).~~ Accountants' Report.

HKEx GUIDANCE LETTER

HKEx-GL33-12 (April 2012) (Updated in July 2013 and March 2014) – effective for applications submitted on or after 1 October 2013

Subject	Disclosure in listing documents for IPO cases – Use of Proceeds
Listing Rules and Regulations	Main Board Rules 2.13 and Paragraphs 17 and 48 to 50 of Part A of Appendix 1 GEM Listing Rules 17.56, Paragraphs 15(2) and 48 to 50 of and note 8 to Part A of Appendix 1 Paragraphs 32 and 33 of the Third Schedule of the Companies Ordinance¹³
Related Publications	N/A
Author	IPO Transactions Department

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 of applicants' intended use of proceeds in listing documents.
- 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 Requirements

Listing Rules

- 2.1 Main Board Rule 2.13 (GEM Rule 17.56) 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 addition, Main Board Rule 11.07 (GEM Rule 14.08(7)) sets out an overriding general duty of disclosure in a listing document.
- 2.2 Paragraphs 17 and 48 of Part A of Appendix 1 to the Main Board Rules

¹³ Retitled as the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) with effect from March 2014.

~~require the listing document to disclose an estimate of the net proceeds of the issue and how they are intended to be applied. Paragraph 48 of Part A of Appendix 1 to the GEM Rules requires disclosure of a detailed explanation of the intended use of the proceeds with reference to an applicant's business objectives and a timetable for their deployment.~~

~~2.3 Paragraphs 49 and 50 of Part A of Appendix 1 to both the Main Board Rules and GEM Rules require the listing document to disclose certain particulars of a property acquisition (names and addresses of the vendor, etc.) where the consideration is intended to be paid, in whole or part, out of the proceeds of the issue.~~

Companies Ordinance¹ (Updated in March 2014)

~~2.4 Paragraphs 32 and 33 of the Third Schedule of the Companies Ordinance¹ require the preparation of an accountants' report in certain circumstances where offering proceeds are used for the acquisition of a business or shares of a body corporate.~~

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. Guidance

Meaningful Breakdown of the Use of Proceeds

- 3.1 ~~The listing document~~ This section should include a detailed breakdown of the use of proceeds. ~~For example, how~~ where the net proceeds will be allocated to each of an applicant’s proposed expansion plans, ~~and~~ 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.) ~~(Updated in July 2013)~~ should be disclosed.

Proceeds for General Working Capital

- 3.2 Where an applicant has no current or specific plans for ~~all the proceeds, or a material portion of them (generally 10% or more) of the proceeds,~~ the “Use of Proceeds” section ~~in~~ of the listing document 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 Committee applicant was requested for to include a clear explanation in the listing document of why it was necessary to allocate 25% of the proceeds to working capital. The Committee also requested for, 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 ~~in a of the~~ listing document must disclose the basis for determining the acquisition costs.¹⁴

Proceeds for Acquisition of Businesses

- 3.6 Where the proceeds will be used to finance acquisitions of businesses, the “Use of Proceeds” section ~~in a of the~~ listing document 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 Ordinance¹⁴ ~~or otherwise (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 **(Updated in March 2014)**.

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. ~~If the debt to be discharged was incurred within one year before the date of the listing application, the The~~ listing document should also describe how the proceeds from the borrowing was/were used ~~(or it was for working capital)~~.

Other ~~Related Disclosure~~ related disclosure in Listing Document

¹⁴ – See Paragraphs 49(1) and 50 of the respective Part A of Appendix 1A1 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).

- 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 ~~purchase~~purchases, the “Financial Information” section ~~in~~of the listing document should discuss matters such as liquidity and proposed capital expenditures.
- 3.10 If any material ~~additional funding is~~ amounts of other funds are necessary for the specified purposes for which the issue proceeds are to be used, the amounts of those other funds needed ~~and funding source~~ for each specified purpose and the source of funding should be disclosed in “Use of Proceeds” ~~or the “Business” section~~ the appropriate sections of the listing document.

Discussion of the Amount and Allocation of the Proceeds

- 3.11 The “Use of Proceeds” section in a listing document should ~~set out~~ discuss the amount of net proceeds to be received by an applicant if the offer price is fixed at low-end, mid-point and high-end of the offer price range with and without exercising the over-allotment option ~~(where, if applicable),~~¹ and the breakdown of the use of proceeds under different circumstances where the amount to be raised is variable ~~(Updated in July 2013).~~

- 3.12 With respect to GEM applicants:

(i)(a) 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;

(ii)(b) 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 ~~or~~ 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

(iii)(c) paragraph 48 of Part A of Appendix 1 to the GEM Rules states that ~~otherwise than on an~~ 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) **(Updated in July 2013).**

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 ~~in~~ of the listing document. ~~Any material change of use of proceeds may constitute inside information is generally price sensitive and,~~ if such information was not previously disclosed in the listing document, ~~and~~ an applicant must make an announcement to notify investors of the change after listing.

Sale Shares ~~(if applicable)~~

- 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 anthe applicant ~~(Updated in July 2013).~~

HKEx GUIDANCE LETTER**HKEx-GL64-13 (July 2013) (Updated in December 2013 and March 2014)**

Subject	Simplification Series – Disclosure requirements for IPO cases – White and Yellow Application Forms and “How to Apply for Hong Kong Offer Shares” section in a prospectus
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 Eighteen Schedule of the Companies Ordinance¹⁵ Paragraphs 5.1.2 and 5.1.5 of the Guide to Eligibility and Admission of Securities to the CCASS (the “CCASS Guide”)
Related Publications	N/A
Author	IPO Transactions Department

1. Purpose

We consider that the current published White and Yellow

¹⁵ Retitled as the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) with effect from March 2014.

J. Application Forms and “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 the CCASS (the “CCASS Guide”)

2. Related publications

- None

3. Guidance

1.1 ~~The Application Forms (“AF(s)”) and including the white, yellow and other colored application forms for designated subscribers) (the “Application Forms”) and the “How to Apply for Hong Kong Offer Shares” section in a prospectus (“HTA”) are lengthy and legalistic, which make it difficult for investorsthe “How to understand. There is currently unnecessary duplication ofApply Section”) provide information in the AFs and HTA. The font size of the AFs is also too small which investors/ brokers may not want to read. This guidance is to make these documents user friendly.~~

1.2 ~~This letter gives guidance on the disclosure requirements in AFs and HTA for applicants to ensure that the information in the AFs and HTA is relevant, concise and in plain language.~~

1.3 ~~Applicants should follow this letter unless compelling reasons are provided to the Exchange.~~

2. Relevant Requirements

Listing Rules

2.1 ~~Main Board Rule 10.09 (GEM Rules 13.21 to 13.25) requires, among others, (i) restrictions on multiple applications; and (ii) certain information to be included in AFs.~~

Companies Ordinance¹ (Updated in March 2014)

2.2 ~~Paragraph 8 of the Third Schedule and Part 4 of Eighteen Schedule of the Companies Ordinance¹ sets out information to be incorporated in prospectuses and application forms.~~

CCASS Guide

~~3.1 Paragraphs 5.1.2 and 5.1.5 of CCASS Guide set out some provisions to be incorporated in prospectuses and application forms procedures.~~

~~2.33.2 We have set out as Exhibits I, II and III sample white and yellow Application Forms and the How to Apply Section, which are intended to make them more comprehensible for investors without distorting the meaning and intention of the current published Application Forms and How to Apply Section.~~

~~3. Guidance~~

~~3.1 The AFs and HTA aim to give clear instructions to investors or their brokers on how to apply for the Hong Kong offer shares. Therefore, their contents must be relevant, concise and in plain language.~~

~~3.23.3 Our proposed revision of the AFs and HTA is sample white and yellow Application Forms and How to Apply Section set out as Exhibits I, II and III to this Guide are based on the following principles:~~

~~(i)(a) contain all the information described/prescribed under the applicable Listing Rules, Companies Ordinance⁴(Winding Up and Miscellaneous Provisions) Ordinance and CCASS Guide (**Updated in March 2014**); are disclosed;~~

~~reduce~~

~~(ii)(b) duplicate information in the AFs and HTA and between AFs and HTA Application Forms and the How to Apply Section is removed unless necessary;~~

~~redraft certain~~

~~(iii)(c) information in the AFs Application Forms and HTA the How to Apply Section is drafted in plain language for easy understanding; and~~

~~require~~

~~(iv)(d) information in AFs Application Forms is presented to be easy to read by requiring the font size in AFs should the Application Forms to be at least an equivalent of 12 Times New Roman font and that the AFs Application Forms should be printed on A3 paper.~~

~~We are of the view that the AFs Application Forms for other designated subscribers (e.g., pink forms for use by the applicant's employees) should be prepared following the same principles.~~

~~3.33.4 Application Forms should include the basic information that gives clear instructions to investors on how to use the AFs Application Forms to apply for the Hong Kong offer shares and what they investors need to do after submitting their applications. The AFs should Application Forms must disclose a reminder to remind investors that they should read the AFs Application Forms in conjunction with the prospectus listing document, which contains more information on the application procedures.~~

~~3.43.5 We expect the HTA How to Apply Section to contain more detailed information on the application procedures such that all investors who apply for Hong Kong offer shares through various channels can refer to. The content of the HTA must be drafted in plain language for easy understanding.~~

~~3.5 We have set out in Appendices as Exhibits I, II and III our guidance on disclosure in the AFs sample white and HTA¹⁶ yellow Application Forms and the How to Apply Section, which are intended to make them more comprehensible for investors without distorting the meaning and intention of the current published AFs and HTA (**Updated in December 2013**). Application Forms and How to Apply Section.~~

¹⁶ ~~Appendices I, II and III have been issued in the English language with a separate Chinese language translation. If there is any conflict between the meaning of Chinese words or terms in the Chinese language version and English words or terms in the English language version, the meaning of the English words or terms shall prevail.~~

- 3.6 For applicants who intend to adopt Mixed Media Offer (“MMO”), the following should be included in their ~~AFs and HTA~~Application Forms and How to Apply Section:

Mixed Media Offer

The Company will be relying on section 9A of the Companies ~~Ordinance~~ (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong)¹⁷ and will be issuing the ~~white and yellow~~ application forms without them being accompanied by a printed prospectus. The contents of the printed prospectus are identical to the electronic form of the prospectus which can be accessed and downloaded from the websites of the Company at [Company’s website] and the Stock Exchange at www.hkexnews.hk, under the “HKExnews > Listed Company Information > Latest Listed Company Information” section, respectively ~~(Updated in March 2014)~~.

Members of the public who wish to obtain a copy of the printed prospectus may obtain a copy, free of charge, upon request during normal business hours from [time and date] until [time and date] at the following locations:

Table of address of each location

Details of where printed prospectuses may be obtained will be displayed prominently at every location where the white and yellow application forms are distributed.

During normal business hours from [time and date] until [time and date], at least [number] copies of the printed prospectus will be available for inspection at every location where the white and yellow application forms are distributed.

¹⁷ ~~Retitled as the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice) Notice (Chapter 32L of the Laws of Hong Kong) with effect from March 2014.~~

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			
<u>1</u>	<u>HKEX-GL26-12</u>	<u>01/2012</u>	<u>Business models with significant forfeited income from prepayments</u>
<u>2</u>	<u>HKEX-GL28-12</u>	<u>01/2012</u>	<u>Restaurant operators</u>
<u>3</u>	<u>HKEX-GL36-12</u>	<u>05/2012</u>	<u>Distributorship business</u>
<u>4</u>	<u>HKEX-GL52-13</u>	<u>03/2013</u>	<u>Mineral companies</u>
<u>5</u>	<u>HKEX-GL71-14</u>	<u>01/2014</u>	<u>Gambling activities</u>
Other Guidance Letters on Disclosure in a Listing Document			
<u>6</u>	<u>HKEX-GL8-09</u>	<u>07/2009</u>	<u>Disclosure of statistics and data quoted in listing documents</u>
<u>7</u>	<u>HKEX-GL24-11</u>	<u>03/2011</u>	<u>Simplification Series – Disclosure requirements for IPO cases – Formal Notice</u>
<u>8</u>	<u>HKEX-GL30-12</u>	<u>02/2012</u>	<u>Disclosure of intellectual property rights</u>
<u>9</u>	<u>HKEX-GL34-12</u>	<u>04/2012</u>	<u>Disclosure of hard underwriting</u>
<u>10</u>	<u>HKEX-GL38-12</u>	<u>06/2012</u>	<u>Latest practicable date and the latest date for liquidity disclosure</u>
<u>11</u>	<u>HKEX-GL37-12</u>	<u>06/2012</u>	<u>Indebtedness, liquidity, financial resources and capital structure disclosure</u>
<u>12</u>	<u>HKEX-GL41-12</u>	<u>08/2012</u>	<u>Disclosure of material changes in financial, operational and/or trading position after trading record period</u>
<u>13</u>	<u>HKEX-GL63-13</u>	<u>07/2013</u>	<u>Disclosure of material non-compliance incidents</u>
<u>14</u>	<u>HKEX-GL65-13</u>	<u>09/2013</u>	<u>Disclosure of property valuation report and market report</u>