

Hong Kong Capital Markets Update

ISSUE 2 | March 2016



HKEx Issues New Guidance on Simplification of Listing Documents to Improve Readability and Clarity of Disclosures

In February 2016, The Stock Exchange of Hong Kong Limited (the Exchange) published a new guidance letter GL86-16 "[Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications](#)" (New Guide). The New Guide consolidates the previously issued guidance letters on simplification of listing documents and update with recent examples.

New Guide

The New Guide is divided in three parts addressing the following areas:

- I) general guidance on the preparation of a clear and concise listing document (**General Guidance**);
- II) consolidation and update of a number of previously issued guidance letters on the simplification of disclosure in listing documents with recent examples (**Consolidated Guidance**); and
- III) sample sections of "Summary of the Constitution of the Company and the Companies Law" (**Specimen Sections**) and the corresponding sample constitutional documents for applicants incorporated in Bermuda, the Cayman Islands and mainland China (**Sample Constitutional Documents**).

Applicants submitting their listing applications after 30 April 2016 should comply with the Consolidated Guidance. For listing applications to be submitted on or before 30 April 2016, the applicants may choose to follow the Consolidated Guidance or the currently effective "Simplification Series" guidance letters which will be withdrawn on 30 April 2016.

Applicants should comply with the General Guidance, Specimen Sections and Sample Constitutional Documents. While the Exchange will not return an application for failing to follow the guidance, the applicant will be reminded to do so.

Four Drafting Principles

The General Guidance highlights four drafting principles for listing documents.

1. *Does each piece of information in the listing document need to be disclosed?*
 - The information disclosed should be relevant and material to the investors.
 - Whether the inclusion is required by laws or regulations or the listing rules should be considered.
 - The information should be specific to the business and focus on the impact on the future and prospects. Avoid boilerplate disclosures.
 - Duplication of disclosure in the listing document should be avoided. Consider using cross references where appropriate.
2. *Is simple language used?*
 - Use simple language and short sentences.
 - When describing a complex issue, consider breaking up the description into separate, shorter sentences.
 - Use fewer and simpler words instead of long phrases.

3. *Are defined terms or technical jargon avoided where possible?*
 - Use plain language instead of defined terms or technical jargon (legal, financial or others) unless they improve the readability of the disclosure.
 - Avoid creating newly defined terms that are unique to the listing document.
 - Ensure the defined term is used consistently throughout the listing document.
 - Include all defined terms in the “Definitions” or “Glossary” sections for easy reference.

4. *Is the layout simplified?*

- Simplify the design and layout.
- Describe the big picture before giving details about the business.
- Emphasise matters that are of most interest to the investors.
- Use headings and sub-headings to break up information. Tabulate information and use bullets for easy presentation.

Sample Constitutional Documents

Consistent with the simplification of disclosures in various sections of the listing document, the Exchange has included in the New Guide sample section of the “Summary of the Constitution and Laws of Place of Incorporation” and the corresponding example standard articles of association or by-laws for the recognised jurisdictions of Bermuda, the Cayman Islands and the mainland China.

The sample sections are provided as examples only and accurate as at the date of issue. The Exchange will only update them when notified of changes. Listing applicants should seek legal advice before using the examples.

The electronic versions of the Sample Constitutional Documents are available on this hyperlink (http://www.hkex.com.hk/eng/rulesreg/listrules/liststtop/guidepsld/psld_index.htm).



Why is the New Guide on Simplification Relevant?

The Exchange noted that the Hong Kong listing documents are lengthy and complex. Many of them may not be easy for potential investors to identify information about the applicant that is important, relevant and sufficient to enable them to make a properly informed assessment of an applicant. The overly complex disclosure loaded with legalistic and technical jargons makes it hard to find the information that are buried inside the listing document.

The disclosures in the listing document should be specific to the applicant’s business and explains the management’s view of the implications on the future and prospects and the significance of the information. For example, discussions on general economic conditions and outlook in all of the countries that the applicant has transactions with may be overly exhaustive if the applicant principally operates in one country.

Similarly, listing documents often includes marketing statements that may give a misleading impression of the applicant. Applicant should therefore disclose information that are factually supported.

The consolidation of the guidance letters on simplification of disclosures in a listing document in the New Guide provides a useful source on the Exchange’s expectation on disclosures in various sections of the listing document. Following the New Guide will help listing applicants to comply with the general principles of the listing rules in producing a listing document that is concise, clear and in plain language so that potential investors have sufficient information to enable them to make an informed assessment of the applicant.

Guidance on specific sections in the listing document

The New Guide includes two appendices. Appendix 1 is the Consolidated Guidance and Appendix 2 is a list of other guidance letters on disclosures in listing documents.

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Appendix 1 – Consolidated Guidance

The Consolidated Guidance consolidates a number of the published guidance letters on disclosures in the listing documents that are mostly under the “Simplification Series” and updates with recent examples. These standalone published guidance letters will be withdrawn after 30 April 2016 as a result of the consolidation. The specific sections in the listing document covered by the Consolidated Guidance include:

Consolidated guidance on specific sections in the listing document	Corresponding previously published guidance letters to be withdrawn
A. “Summary and Highlights”	GL 27-12
B. “Risk Factors”	GL54-13
C. “Industry Overview”	GL48-13
D. “History and Development”	GL49-13
E. “Business”	GL50-13
F. “Financial Information” or “Management discussion and analysis on the historical financial information (MD&A)”	Update of GL59-13
G. “Applicable laws and Regulations”	Update of GL72-14
H. “Directors, Supervisors and Senior Management”	Update of GL62-13
I. “Use of Proceeds”	Update of GL33-12
J. Application Forms and “How to Apply for Hong Kong Offer Shares”	Update of GL54-13

Appendix 2

This appendix sets out other guidance letters on disclosures in listing documents. They will remain effective.

Industry-specific guidance letters	
GL26-12	Business models with significant forfeited income from prepayments
GL28-12	Restaurant operators
GL36-12	Distributorship business
GL52-13	Mineral companies
GL71-14	Gambling activities
Other guidance letters on disclosure in a listing document	
GL8-09	Disclosure of statistics and data quoted in listing documents
GL24-11	Disclosure requirements for IPO cases – Formal Notice
GL30-12	Disclosure of intellectual property rights
GL34-12	Disclosure of hard underwriting
GL38-12	Latest practicable date and the latest date for liquidity disclosure
GL37-12	Indebtedness, liquidity, financial resources and capital structure disclosure
GL41-12	Disclosure of material changes in financial, operational and/or trading position after trading record period
GL63-13	Disclosure of material non-compliance
GL65-13	Disclosure of property valuation report and market report

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