

Revised Guidance from the Hong Kong Stock Exchange on Disclosure in Listing Documents: Points to Note for Sponsors

August 2017

Summary

In an effort to improve the quality and clarity of disclosure in listing documents, The Stock Exchange of Hong Kong Limited (the **Exchange**) has issued revised guidance to:

- increase the number of sections in a listing document which have a recommended page limit;
- improve the “Summary and Highlights” section to ensure it is drafted clearly and focused only on material information; and
- clarify the Exchange may suspend vetting in cases of non-compliance with the above (but only until the relevant section has been redrafted to the required standard) and may return GEM listing applications where fundamental issues are not clearly understandable after two rounds of comments.

The Exchange has also taken the opportunity to remind sponsors of their duty to help applicants prepare replies to the Exchange’s comments and that sponsors themselves have to be prepared to answer questions at Listing Committee and GEM Listing Approval Group hearings.

The revisions signal the Exchange will take a stricter approach on the quality of disclosure in GEM listing applications (which may be returned if key issues are not clearly presented after two rounds of comments) and in respect of certain sections in the listing document of both Main Board and GEM applicants.

Revised Guidance

The Exchange previously issued guidance to help listing applicants and their sponsors produce clear and succinct listing documents and to clarify the extent of disclosure required in an Application Proof. The Exchange has recently revised this guidance, and we have summarised the changes below. The revised guidance can be found at: [GL86-16](#) and [GL56-13](#).

New Recommended Page Limits

The Exchange has recommended page limits for two further sections in a listing document, namely “History and Development” and “Applicable Laws and Regulations”. Accordingly, there are now four sections with recommended page limits:

- (i) History and Development - 20 pages;

- (ii) Applicable Laws and Regulations - 20 pages;
- (iii) Summary and Highlights - 10 pages; and
- (iv) Industry Overview - 10 pages.

The additional recommended page limits is a welcomed guidance. We have noticed a tendency in the market to use a “blanket approach” in relation to disclosures relating to the laws and regulations that are applicable to an issuer. The introduction of a recommended page limit should focus parties on the material laws and regulations only.

Suspension of Vetting

For listing applications submitted after 11 September 2017, the Exchange may exercise its discretion to suspend vetting if:

- the listing document exceeds the recommended page limits for the sections mentioned above.

However, the Guidance Letter (GL86-16) states the actual length of the relevant sections will depend on the nature and complexity of each case.

Given the revised guidance, the prudent approach would be to keep the relevant sections in the Application Proof within the recommended page limit where possible. This should be balanced against the need to make proper disclosure for a fully-informed investment decision. There may therefore be cases where a listing applicant and its sponsor feel it is justified for a section in the Application Proof to exceed the recommended page limit (for example, due to the complexity of the applicant’s business model) - in which case, this should be explained to the Exchange in the listing application itself. It may also be the case that the eventual length of the relevant

sections will exceed the page limits after reflecting comments from the Exchange; or

- the “Summary and Highlights” section: (i) is almost entirely copied and pasted from other sections; or (ii) does not explain material fluctuation of key financial data.

As many investors may only read the “Summary and Highlights” section, the Exchange requires this section to explain any material fluctuation of key financial data (see also the guidance at [GL41-12](#)). In addition, this section should not be “almost entirely” copied and pasted from elsewhere in the document. Overall the section should be drafted specifically as a concise *summary* of the applicant and the significant matters disclosed elsewhere in the document.

Suspension of vetting means the Exchange will stop the entire vetting process until the relevant sections have been redrafted to comply with the Guidance Letter. A suspension is not a return or rejection of the listing application - therefore, there will be no need to forfeit the listing fee, upload the revised Application Proof or wait for a fixed period to expire. The length of delay to the timetable will depend on how quickly the parties can redraft the sections to the required standard. Note the Exchange did not state that suspensions will involve naming the applicant and its sponsor(s) on the Exchange’s website.

GEM listing applications

The Listing Rules require information in the Application Proof of a listing document to be substantially complete when submitted to the Exchange for vetting. Otherwise, the Exchange will return the listing application. Once returned, the listing application cannot be resubmitted until the expiry of an eight-week moratorium period and the returned applicant and its sponsor(s) will be named on the Exchange’s website.

In the case of GEM listing applicants, the revised Guidance Letter (GL56-13) states that if “fundamental issues ... such as its business model or operations” are not clearly understandable after two rounds of comments from the Exchange, the GEM listing application may be returned for not being substantially complete. This applies to GEM listing applicants only and relates to fundamental issues.

The guidance gives an applicant’s business model / operations as an example of a fundamental

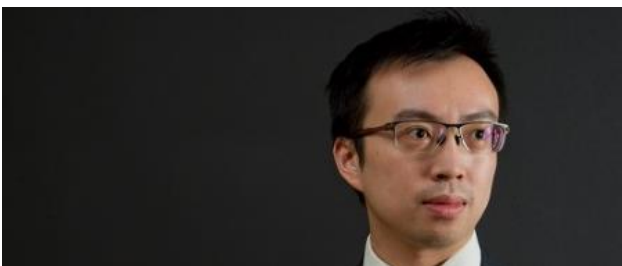
issue that should be clearly explained, but this is merely one example. GEM applicants and their sponsors should therefore take particular care to respond clearly and comprehensively to all of the Exchange’s comments or risk having the listing application returned after two rounds of comments. If any comment or question from the Exchange is unclear, it is important for the Sponsor to speak or even meet with the relevant vetting team to fully understand the Exchange’s concerns so that such concerns can be comprehensively addressed.



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