HKEX GUIDANCE LETTER
HKEX-GL103-19 (April 2019) **(Withdrawn in January 2024)**

[Superseded by new version issued in January 2024 (which is in line with the relevant guidance set out in the Guide for New Listing Applicants)]

Subject	**Guidance for applicants on the presentation of the non-GAAP financial measures in a listing document and any relevant documents pursuant to the Exchange's Listing Rules**
Listing Rules	**Main Board Rules 2.13 and 11.07** **GEM Rules 14.08(7) and 17.56**
Relevant Publications	**N/A**
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Important note*: This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Department on a confidential basis for an interpretation of the Listing Rules, or this letter. Unless otherwise specified, defined terms in the Listing Rules shall have the same meanings in this letter.*

1. Purpose

1.1 This letter provides guidance on the presentation of the non-GAAP financial measures in a listing document.

2. Relevant Listing Rules

2.1 Main Board Rule 11.07 and GEM Rule 14.08(7) state that as an overriding principle, all listing documents must contain such particulars and information which, according to the particular nature of the issuer 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 issuer and of its profits and losses and of the rights attaching to such activities.

3. Non-GAAP financial measures and common types of non-GAAP financial measures

3.1 A non-GAAP financial measure is a numerical measure of a listing applicant's current, historical or future performance, financial position or cash flow that is not a GAAP measure[1]. Listing applicants often disclose non-GAAP financial measures in sections such as 'Summary' and 'Financial information' of a listing document.

3.2 Common types of non-GAAP financial measures presented by listing applicants include earnings before interest, taxes, depreciation and amortisation ("EBITDA"); adjusted EBITDA; and adjusted net profit (that is, net profit excluding one or more expense items such as add back of listing expenses, etc.).

[1] GAAP measures are based on Hong Kong Financial Reporting Standards ("HKFRS") or International Financial Reporting Standards ("IFRS") or China Accounting Standards for Business Enterprises ("CASBE")

4. Guidance

4.1 Sponsors should ensure the presentation of the non-GAAP financial measures is not misleading. Reference can be made from the below principles and the IOSCO's 'Statement on Non-GAAP Financial Measures'[2]. The following elements, if present, would contribute to the reliability and comparability over time of non-GAAP financial measures and reduce the potential for misleading disclosure.

(a) Defining the Non-GAAP Financial Measure

(i) Define each non-GAAP financial measure presented and provide a clear explanation of the basis of calculation.

(ii) Non-GAAP financial measures should be clearly labelled in a way such that they are distinguished from GAAP measures. Labels should be meaningful and should reflect the composition of the measure.

(iii) When labeling a non-GAAP financial measure, a listing applicant must not use titles or descriptions that are the same as, or are confusingly similar to, titles or descriptions used for GAAP measures. It would be inappropriate to label a non-GAAP financial measure with a name that may convey a measure that it does not actually represent.

(iv) To avoid investors' confusion, a listing applicant should not characterise or label the non-GAAP financial measure as earnings before interest and taxes ("EBIT") and EBITDA if the measure does not meet these traditional definitions. Instead, the listing applicant should distinguish the measure from EBIT or EBITDA by using a title such as "adjusted EBITDA".

(v) Explain the reason for presenting the non-GAAP financial measure including an explanation of why the information is useful to investors, and for what additional purposes, if any, management uses the measure. A listing applicant should avoid providing boilerplate disclosures related to the usefulness and purpose of the measure.

(vi) Explicitly state that the non-GAAP financial measure does not have a standardised meaning prescribed by the listing applicant's GAAP and therefore may not be comparable to similar measures presented by other issuers.

(b) Unbiased Purpose

(i) Non-GAAP financial measures should not be used to avoid presenting adverse information to the market.

(ii) A listing applicant should not exclude certain non-recurring charges but do not exclude non-recurring gains (for example, "cherry picking" non-GAAP adjustments to achieve the most positive measure).

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[2] The "Statement on Non-GAAP Financial Measures" was published by the International Organisation of Securities Commissions (the "IOSCO") in June 2016, available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD532.pdf

(iii) A listing applicant should not use individually tailored accounting principles, including certain adjusted revenue measures (for example, a non-GAAP financial measure that reflects revenue recognised over the service period under GAAP on an accelerated basis as if the listing applicant earned revenue when it billed its customers).

<u>(c) Prominence of Presentation of GAAP Measures versus Non-GAAP Financial Measures</u>

(i) When a listing applicant presents non-GAAP financial measures, those measures should not be presented with more prominence than the most directly comparable measure calculated and presented in accordance with GAAP. Presentation of non-GAAP financial measures, including information provided for reference, should not in any way confuse or obscure the presentation of the GAAP measures.

(ii) If GAAP and non-GAAP financial measures are presented in a particular section of a document, the GAAP measures should be presented before the non-GAAP financial measures. For example, if a listing applicant wants to use certain non-GAAP financial measures in its discussion of results of operations, it should discuss the GAAP results before the non-GAAP financial measures.

(iii) A listing applicant should not present a non-GAAP financial measure in more detail, or emphasise it more, than the comparable GAAP measure. For example, use of phrases such as “exceptional” or “record” in a discussion of the non-GAAP financial measure would place undue emphasis on that measure if such phrases were not used to describe the comparable GAAP measure.

(iv) The disclosures related to non-GAAP purpose and use should not state or imply that the non-GAAP financial measures are superior to, provide better information about, or more accurately represent the results of operations than GAAP measures.

(v) Certain presentations that give undue prominence to non-GAAP financial measures, such as a full non-GAAP income statement, are prohibited.

<u>(d) Reconciliation to Comparable GAAP Measures</u>

(i) Provide a clear and concise quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP measure presented in the financial statements. The adjustments should be explained.

(ii) If the reconciling items are derived from items reported in the GAAP measures, they should be reconcilable to the financial statements. When a reconciling item cannot be extracted directly from the financial statements, the reconciliation should show how this figure is calculated.

(iii) Such reconciliation should be quantitative and is generally presented as a table, although it may be disclosed in another clearly understandable format.

(iv) The reconciliation should begin with the GAAP measure and be reconciled to the non-GAAP financial measure, rather than the other way around.

(v) Reconciling adjustments from the GAAP measure to the non-GAAP financial measure should be separately quantified and appropriately labeled.

(e) Presentation of Non-GAAP Financial Measures Consistently Over Time

(i) If a listing applicant chooses to present non-GAAP financial measures, it should provide the measure for comparative periods.

(ii) The non-GAAP financial measures presented by a listing applicant should generally be presented consistently from period to period. Further, if a listing applicant chooses to change the composition of the non-GAAP financial measure, the listing applicant should explain any changes and the reason for making them, and provide comparative figures for the prior period with such figures adjusted to reflect the change in composition.

(iii) If a listing applicant determines it will no longer present a particular non-GAAP financial measure, the reason for this determination should be explained.

(iv) A listing applicant should consider whether its non-GAAP financial measures are consistent with standard measures used in its industry or by its peers and, if they are not, how the differences may affect comparability with other companies. A listing applicant's non-GAAP financial measures may differ from those used in its industry or of its peer companies. However, the listing applicant should consider explaining such differences.

(f) Recurring Items

(i) In presenting non-GAAP financial measures, listing applicants sometimes seek to adjust for items that are reasonably likely to recur in the foreseeable future, or are activities that affected the entity in the recent past. Such items should not be described as non-recurring, infrequent or unusual without sufficient explanation.

(ii) A listing applicant should not remove costs necessary to generate revenues or normal, recurring charges.

(iii) The following items[3] should not be described as non-recurring, infrequent or unusual without sufficient explanation:

a. Restructuring and acquisition costs for a listing applicant with recurring restructuring charges or frequent business acquisitions;

b. Pre-opening costs incurred in certain industries, such as the restaurant and retail industries;

c. Certain marketing expenses that were considered normal recurring operating expenditures;

d. Expenses that a listing applicant has incurred over several successive quarters or years that appear to be necessary for operating its business;

e. Share of profits or losses of associates and joint ventures when they relate to the normal activities of the listing applicant; and

f. Impairment of trade receivables relating to a listing applicant's normal business.

(iv) A listing applicant should use judgement in determining what constitutes a normal, recurring operating expense.

[3] This list is not exhaustive

(g) Treatment of Tax Adjustments

(i) A listing applicant should present its reconciling adjustments on a gross basis before tax. The overriding objective is to avoid double counting of any amount. Income taxes should be shown as a separate adjustment and clearly explained.

(h) Access to Associated Information

(i) The information that listing applicants provide regarding non-GAAP financial measures should be readily and easily accessible to investors and other users of financial information. Information is readily and easily accessible if it accompanies the non-GAAP financial measure or a reference is provided to where the information is available.

4.2 In vetting a listing document, the Listing Department may raise the following comments when non-GAAP financial measures are presented by a listing applicant:

(i) Is the measure misleading?

(ii) Is the non-GAAP financial measure presented necessary and appropriate for investors to understand the performance of the listing applicant?

(iii) Is the measure presented with the most directly comparable GAAP measure and with no greater prominence than the GAAP measure?

(iv) Is the measure appropriately defined and described, and is it clearly labeled as non-GAAP financial measure?

(v) Does the reconciliation between the GAAP and non-GAAP financial measure clearly label and describe the nature of each adjustment, and is each adjustment appropriate? The reconciliation should begin with the GAAP measure (such as, profit for the year) and be reconciled to the non-GAAP financial measure.

(vi) Is there transparent and company-specific disclosure of the substantive reason(s) why management believes that the measure is useful for investors and the purpose for which management uses the measure?

(vii) Is the measure balanced (that is, does it adjust not only for non-recurring expenses but also for non-recurring gains)?

(viii) Does the measure appropriately focus on material adjustments and not include immaterial adjustments that would not seem to be a focus of management?

(ix) Do other listing applicants present this measure or similar measures? If not, why is this measure important to the listing applicant but not its peers?

5. Responsibilities of sponsors, reporting accountants and other experts on the presentation of non-GAAP financial measures

5.1 Sponsors , reporting accountants and other experts are reminded to perform appropriate level of due diligence to ensure accurate presentation of non-GAAP financial measures in a listing document, including but not limited to, the accuracy of the reconciling items and the reasonableness of the adjustments (for example, whether the adjustments would result in double counting).

6. Application of the principles in this letter to listed issuers

6.1 With reference to Main Board Rule 2.13 and GEM Rule 17.56, the above-mentioned guidance should also be applied when listed issuers present non-GAAP financial measures in any documents pursuant to the Exchange's Listing Rules (such as financial reports, announcements and circulars).

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