

Project on the Use of Plain Language

How to create a clear prospectus

Hong Kong
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Comments welcomed

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Using the samples

The Working Group on Plain Language has now completed the second stage of the Project on Plain Language.

In its review of the language and content of prospectuses, the Working Group identified the following problems:

- contents are poorly organised, and not presented in a logical order;
- information is repeated unnecessarily;

- information is included for historical reasons, not because it is meaningful to investors; and
- the style of writing is tedious and legalistic.

The Working Group suggests that prospectuses could be improved in the following ways:

- simplifying the first page of a prospectus so it contains only essential and important information;
- drafting a useful summary of the information in the prospectus;
- arranging the content into a logical order;
- grouping like information together under descriptive headings;
- where like information cannot easily be grouped together, using cross-references to guide readers;
- eliminating unnecessary repetition;
- writing in plain language.

The Working Group has created a sample plain language prospectus to demonstrate the ways prospectuses can be improved, and to help you to incorporate these improvements into your prospectus. This sample sets out the order in which you should present your information, and suggests plain language wording for most standard sections. Of necessity, the Working Group has had to leave to you the hardest but most important task of clearly telling potential investors about the opportunities and risks of investing in your company. However, the Working Group's handbook "How to create clear announcements" includes plain language principles which are equally relevant to writers of prospectuses.

The sample prospectus is not exhaustive, and cannot cover every situation. The Working Group has created a very simple example for you to build on, depending on your company's particular situation. The Group chose the following characteristics for its sample:

- Manufacturing company, principally operating in Hong Kong;
- Incorporated in Bermuda;
- New issue, offered for subscription in Hong Kong and Bermuda only;
- Minimal Mainland China issues.

Obviously, you will need to include more or different information to meet your circumstances.

The Working Group has also prepared a sample white application form to be used in conjunction with the sample prospectus.

Adoption of these changes by the SFC and the Exchange

The changes suggested by the Working Group are of three types:

1. Changes to format:

The main sections of the prospectus have been expanded, and the usual order changed.

These changes were agreed after much debate in the Working Group, and after input from the market. The Working Group believes that it is essential that prospectuses be consistent, so that investors can find the same information in the same order in every prospectus.

2. Changes to language:

The Working group has suggested plain language wording for several standard sections, and for the sample white application form.

This wording is a suggestion only, and is not the only wording that will be acceptable to the SFC or the Exchange.

3. Suggested changes to content:

The Working Group has recommended amendments to the Listing Rules that, if accepted and implemented, would significantly reduce the size of the appendices to a prospectus. These recommendations will be put to the Listing Committee. If accepted, they will take time to implement. Until the Listing

Rules are changed, you must continue to meet the existing requirements.

Of course, you must make sure that your prospectus meets all regulatory requirements.

Comments welcomed

We welcome suggestions and comments from you on the sample prospectus and application form. They can be sent to:

Working Group on Plain Language
c/o Corporate Finance Division
Securities and Futures Commission
12th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Or sent by email to:

cf@hksfc.org.hk

The English version of this Handbook is also available on the SFC's Internet website at:

<http://www.hksfc.org.hk> (look under codes and guidelines).

1. Sample plain language prospectus

The commentary and explanatory notes to the sample format prospectus are set out below.

The text and format of the sample prospectus can be found by clicking on each underlined blue heading.

1.1 First page

The first page of a prospectus is often crowded with information. Putting information on the first page suggests that it is very important, but there is often so much information here that the really important has to be highlighted by some printing device, such as bold or coloured print.

The first page is just that - the first of many pages in your prospectus. The first page in our sample has been cut down to its essentials:

1. What has to be there

The warning at the top of the page, the Stock Exchange disclaimer, and the information about what documents have been registered;

2. What your reader wants to know up front

The size of the issue and the issue price per share;

3. What you want to be there

Your name, and the names of your sponsor and underwriters.

The next most important piece of information which usually appears on this page is the date and time when the application lists close. In our sample, this appears in the expected timetable on the second page.

We did not think that any of the other statements which commonly appear on this page were important enough to remain on our sample page. Instead we moved them to the section headed "Information about this prospectus", or

deleted them as unnecessarily repetitive of information found elsewhere in the prospectus.

Of course, there may be other information you want to include on this page. Before you add anything to this page, however, we suggest that you ask yourself whether it would be helpful to your readers to see it here, or whether it could wait until a later page.

1.2 Expected timetable

Because the period of time between the release of the prospectus and the closing of the offer is so short, this information should be given to readers early in the prospectus.

1.3 Contents

Different readers approach a prospectus in different ways: some readers want to know the figures first, others go straight to the parties involved. By putting the contents page at the beginning of the prospectus (instead of after the Summary), it is useful to all readers. We wanted the contents page to be easy to find, and to work as an easy reference to the contents of the prospectus.

There are some points to note about our contents page:

- We have put the warning to investors about relying on information and representations at the top of this page. We believe this warning is important and should come at the beginning of the prospectus, and not be buried in the "Preliminary" section.
- We have changed the usual order in which information appears, and have introduced some new headings and sub-headings. These changes have been made with your readers in mind.

Perhaps the most significant change we have made is to break up the main section of the prospectus - usually headed "Information relating to the Group", or "Particulars of the Group" - into three separate sections headed "Business", "Directors, management and staff", and "Financial information". We believe this change helps meet two of our aims: to group like information together and to avoid unnecessary repetition.

1.4 Summary of this prospectus

The Summary is a very important part of the prospectus: most readers read it, and many readers do not read anything else. Any improvements to your Summary will automatically improve your communication with your readers.

We suggest that you think of your readers when preparing your Summary. Ask yourself: What do they need to be told here? How can I best present that information to them?

What should a summary do? To quote from the US Securities and Exchange Commission's draft Plain English Handbook:

...A summary should orient the reader, highlighting the most important points that are presented in greater detail in the prospectus. Many summaries now seem as long as the prospectus itself and merely consist of selected paragraphs copied straight from the body of the prospectus.

Reading the same material two or three times can bore and even trouble readers. Most readers skip over paragraphs if they think they've read them before...

Because your Summary will be written after you have written the main text of your prospectus, there is a real temptation to just lift paragraphs from the body of the prospectus and place them in your Summary. For the sake of your readers, you should try to avoid this. One way to write an actual summary, and not just repeat information, is to present the information in the Summary in a different form. For example, you could present the key facts in a point or note form, or in a table. You could also use cross-references to your main text to avoid repetition.

Our summary also includes two "warning boxes". The first box takes the usual statement "The following information is derived from, and should be read in

conjunction with, the full text of this prospectus", puts it in plain language and highlights it for the reader. We have introduced the second box because we believe there should be a cross-reference to risk factors in the Summary.

1.5 Definitions

Where possible, the meaning of a word or term should be plain from the context in which it appears. Readers do not like to have to constantly refer to a definition section in order to understand what they are reading.

If your company's business involves a technical process, and your readers need to understand that process before they can make an informed investment decision, it may be useful for this section to include a glossary of technical terms. As with definitions, a glossary should not be used more than is necessary. You should try to explain any technical terms in context.

If you do need to include terms in a glossary, you may want to use some textual device to show this, such as giving the defined word in italics. Alternatively, if there are only a few technical terms, you may be able to give an explanation of each term in a footnote on the page where the term is first used.

1.6 Risk factors

This section is one of the most important for investors.

The purpose of including a statement of the risk factors associated with investing in your company is to enable a reader to form a real opinion of the investment. As with the Summary, your statement of the risks of this investment should focus on what your readers need to know, and how you can best present that information to them.

If the risks are many, you should take care to point out the most significant ones, or present them in order from the most to the least important. You should not bury a real risk among many trivial ones.

We suggest that you use descriptive headings and sub-headings to break up the text.

Because we have referred to the section on risk factors in the Summary, we have not included here the usual warning "Prospective purchasers of the shares offered by this prospectus should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risks in connection with an investment in the Company".

1.7 Information about this prospectus and the new issue

We have called this section "Information about this prospectus and the new issue" because it is a more meaningful heading than "Preliminary". We have also introduced descriptive headings for each paragraph.

We have suggested plain language versions for these paragraphs, where permitted.

We have also included here some of the paragraphs which we removed from the first page.

1.8 Directors and parties involved in the new issue

This section contains important information, and should appear early in the prospectus. However, too often this information is spread out unnecessarily over several pages.

You should present this information in as few pages as possible. One way to do this is to write each name and address on one line only, another is to use two or three columns per page.

Under the headings "Directors" and "Underwriters", you could include cross-references to the later sections which give further details.

1.9 Corporate information

Again, you should present this information in as few pages as possible.

1.10 Business

We have taken the information usually found under the general heading "Information about the Group", and arranged it in three separate sections. "Business" is the first of these. In this section you should group all the information about the business of your company and your Group, as distinct from management and staffing issues, and financial information.

There are numerous specific requirements in the Listing Rules and the Companies Ordinance which set out the information you must include here, as well as the general requirement that you must inform your reader about this investment. Our sample headings are for a manufacturing company, and are merely to illustrate the type of information we would include in this section. Our order of contents is also only a suggestion. It may be that, for you, it will be more logical to present your information in a different order. All we ask is that, whatever order you use, you concentrate on grouping like information together and avoiding unnecessary repetition, and that you use descriptive headings and sub-headings to break up your text.

This section is often unnecessarily long. The information included under the heading "Industry overview and background", for example, should be introductory, and should only include what your readers need to know. Your description of your business should also only include necessary information. If your company's business is one which most readers do not know much about, diagrams or charts and a glossary of technical terms may help them to understand it. But you should only use them if they will actually help your readers to decide whether or not to invest. If this technical information is not relevant to the investment decision, do not include it. Too often prospectuses include lengthy descriptions of production processes, often accompanied by detailed diagrams and flow charts and glossaries of technical terms, which do

not help with the actual decision of whether or not to invest in the shares being offered.

For example, if your manufacturing company produces a final product for sale, your readers will not need detailed descriptions of how that product is produced. But if your manufacturing company is engaged in part only of a production process, then you may need to describe to your readers exactly what part you perform, and the extent to which you rely on other parties, so your readers can make an informed decision whether to invest in your shares. Even in this case, you should keep your description brief, and limit your use of diagrams etc to what is necessary or helpful. We suggest that the text and the graphics together should not take up more than two to three pages.

1.11 Directors, management and staff

The biographical details of the directors need not include their addresses or nationalities, as these have already been given in the section "Directors and parties involved in the new issue".

1.12 Substantial shareholder(s)

This information is usually only found in the "Statutory and General" section. It is important to many readers, and deserves its own section in the body of the prospectus.

If the structure of a substantial shareholding is complicated, a chart will be very useful.

1.13 Share capital

This is a standard section. We have created a plain language version of the notes, and included headings.

1.14 Financial information

In this section we have combined the "pro forma" financial information ("Indebtedness", and "Liquidity, financial resources and capital structure"), with the financial information usually included in the general section

"Particulars of the Group". We have also put the statement of "no material change" in this section.

It lessens the feeling of repetition if you group together all the financial information about your company.

1.15 Future plans

You could include any forward looking information about your company in this section.

1.16 Underwriting

To avoid the feeling of repetition, we have combined the details of the underwriters with the information about the underwriting arrangements usually found in the "Statutory and General" section.

1.17 Structure of the new issue

There is a trend to include this section in prospectuses for more complex new issues. We believe it is of use in all situations.

We have included a plain language version of the "Conditions of the new issue" as part of this section.

You may need to include additional information, for example, if your issue is part of a global offer.

1.18 How to apply for new shares

This section contains important information for readers, but is often repetitive of, and not always consistent with, the application forms.

We have prepared a sample white application form, and have included with that form all the information on how to complete the form and the effect of completing it, and information about the allotment of shares and payment of refunds. If this information is included with the form, then the purpose of this general section in the prospectus is to tell applicants:

- which form to use;
- where to collect the form;
- how to fill in the form and pay for their shares;
- the time to apply;
- when dealings in the shares will commence;
- that the shares will be admitted to CCASS.

This general section must also include statements required by the Companies Ordinance.

We have prepared a plain language version of this section which covers these topics. If the circumstances of your issue are different, you will have to change our standard wording. You must also make sure that any changes are reflected in your application forms.

1.19 Appendices

We have included as Appendix 6 "Documents delivered and available for inspection". This is important information, so we have moved it from the "Statutory and General" section.

1.20 Appendix 5: Statutory and general information

We have introduced descriptive headings and sub-headings which, where possible, reflect the headings used in the body of the prospectus. This has let us group like information together, and minimise the feeling of repetition. Cross-references to the relevant sections and paragraphs of the prospectus would also be helpful.

2. Sample white application form

Click to view [Sample white application form](#)

The Working Group has identified the following problems with application forms:

- information in the form is not always consistent with information in the prospectus;
- information is repeated unnecessarily;
- an applicant must lodge the whole form;
- the wording used is not plain. In particular, the conditions and the instructions for completing the form are not clear;
- the information to be completed by the applicant is not in a logical order; and
- the layout is not consistent with plain language principles. For example,
 - the writing is too small to read comfortably;
 - red print is too hard to read, particularly on coloured forms; and
 - words are often written in capital letters.

The Working Group has designed a larger application form, which has the following features:

- the form includes all the information which is presently found in the "Procedure for application" section of a prospectus;
- the part completed by the applicant is to be torn off from the information which accompanies it. Only the completed part is lodged with the bank, and the applicant gets to keep the important information;
- the parts to be completed by the applicant are in a logical order;
- the larger size means that all parts of the form are easier to read; and
- the form is written in plain language.

The Working Group suggests that some colour should be used on the form to prevent unauthorised copying. However, the Group recommends that colour should be used sparingly, and should be confined to the shaded areas or the heading. It should not be used for the main text.

If your circumstances differ from what our form describes, you will have to change the sample wording. You must also make sure that any changes are reflected in the section "How to apply for new shares".