



HKEx  
香港交易所

**The Stock Exchange of Hong Kong Limited**

*(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)*

Our Ref : MD20091005-039

5 October 2009

To: Market Practitioners

Dear Sirs,

**Review of the liquidity disclosure in listing documents published after the issuance of “Guidance Regarding Indebtedness, Liquidity, Financial Resources and Capital Structure Disclosure in Listing Documents issued by New Applicants”**

In July 2008, the Exchange issued the *Guidance Regarding Indebtedness, Liquidity, Financial Resources and Capital Structure Disclosure in Listing Documents issued by New Applicants*.

We have recently reviewed the liquidity disclosure of all 16 new listing documents published between 21 July 2008 (i.e. after the issue of the Guidance) and 30 April 2009 against the Guidance. The review can be found on HKEx website at [http://www.hkex.com.hk/listing/gemsharelistdoc/letters\\_table.htm](http://www.hkex.com.hk/listing/gemsharelistdoc/letters_table.htm). A copy of the review is also attached for your reference.

While the current standard of disclosure appears generally in line with the Guidance, I would like to take this opportunity to remind new applicants and their advisers of the importance of providing quality disclosure about the liquidity position.

Yours faithfully,  
For and on behalf of  
The Stock Exchange of Hong Kong Limited

*[Signed]*

Mark Dickens  
Head of Listing

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“Guidance Regarding Indebtedness,  
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in Listing Documents issued by New Applicants”**

**Introduction**

1. In July 2008, the Listing Division issued *Guidance Regarding Indebtedness, Liquidity, Financial Resources and Capital Structure Disclosure in Listing Documents issued by New Applicants*. The Guidance was issued to remind new applicants and their advisers about the applicable disclosure standards in light of the deterioration in the credit environment of the global financial market and tightened monetary policies in Mainland China earlier in 2008.
2. Since the Guidance was issued, a number of governments have put into place expansionary fiscal and monetary policies to keep economy growing. Tentative signs of stabilisation may have emerged in several countries. However, a rapid global recovery seems unlikely and uncertainty remains. This Review is conducted and published to remind new applicants and their advisers of the importance of providing quality disclosure about the liquidity position of the new applicants.

**Scope of review**

3. The Listing Division has reviewed all 16 new listing documents published between 21 July 2008 (i.e. after the Guidance was issued) and 30 April 2009 and benchmarked the relevant liquidity disclosure section of each document against the following factors in the Guidance:
  - (i) a discussion on the net current asset (liability) position of the new applicant stating the composite assets and liabilities as at the most recent practicable date, which should be normally not more than eight weeks before the listing document is issued (Guidance 1);
  - (ii) an analysis and explanation of the sources and use of cash and an analysis of the material changes in the underlying drivers (Guidance 2);
  - (iii) an analysis and information of factors that would have a material impact on the new applicant's liquidity (Guidance 3);
  - (iv) where the new applicant has decided to raise material external debt financing, or if it is reasonably likely to do so in the future, a discussion and analysis of the amounts or ranges involved, the likelihood of obtaining the financing at terms acceptable to the new applicant, the nature and the terms of the financing, other features of the financing and plans, and the impact on the new applicant's cash position and liquidity (Guidance 4);

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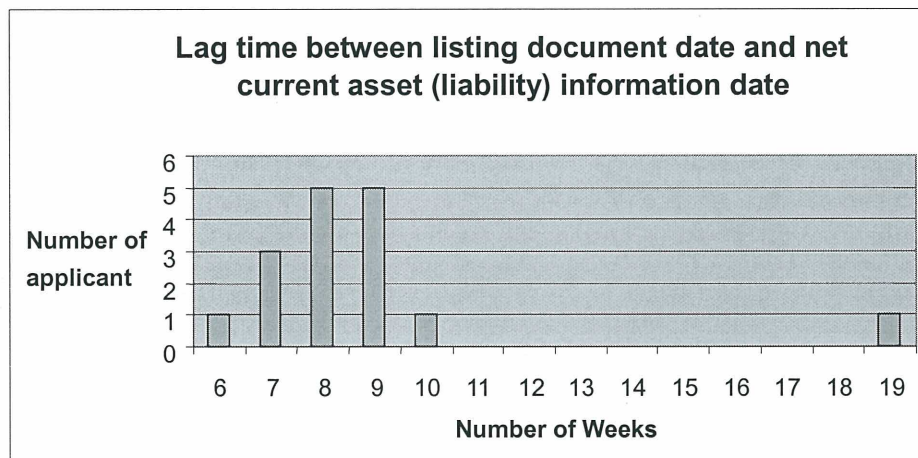
- (v) a discussion and analysis of material covenants related to outstanding debt (or covenants applicable to the companies or third parties in respect of guarantees or other contingent obligations) and the impact of debt covenants (or other covenants/ undertakings) on the new applicant's ability to undertake additional debt or equity financing, etc. (Guidance 5); and
- (vi) any other information on the new applicant's indebtedness, liquidity, financial resources and capital structure disclosure that would be material to an investor to make a properly informed assessment of the financial position and prospects of the new applicant (Guidance 6).

**Reviews and findings**

*Guidance 1*

How up-to-date is the net current asset (liability) information

- 4. All but one of the 16 applicants included details of their net current asset (liability) position as well as the major items of their current assets and current liabilities as at a date ranging from six to ten weeks before the listing document date. The only exception is a listing applicant which posted its WPIP version of listing document on HKEx website a week after the Guidance.



- 5. The fact that six applicants had the net current asset (liability) information as at a date slightly more than 8 weeks is understandable as it would be more practicable to prepare financial information for a period ending on the last day of a month rather than exactly on the end of the eighth week before the listing document date.

Discussion on the net current asset (liability) position

- 6. All 16 applicants included a discussion on their net current asset (liability) position during the audited track record period. Four also provided management discussion on

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their net current asset (liability) position as at the most recent practicable date (i.e., about 8 weeks before the listing document date), a practice that the Listing Division consider all applicants should adopt.

### Guidance 2

#### Analysis and explanation of sources and use of cash

7. All applicants identified the sources and use of their cash, either specifically relating to the applicants' business model or in more general terms.

8. Ten applicants chose to disclose their sources and use of cash in general statements. For example:-

*"The group has historically financed its operations from capital contribution from its shareholders, net cash generated from its operations and bank borrowings."*

*"Up to the latest practicable date, the group has been generally financing its operations through a combination of shareholders' loan, internally generated cash flows and bank borrowings."*

9. On the other hand, some of the disclosures linked up the sources/ use of cash with the applicants' principal businesses. An example of this kind is the following disclosure made by a company engaged in property investment:

*"Our cash inflow ... is principally generated from lease income and proceeds from transfer of operation rights as well as revenue from property management and relevant services."*

10. As different listing applicants have different business models, the presentation of their sources and use of cash varies. Depending on applicants' business operations, some specific disclosures relating to applicants' principal businesses may provide more relevant and useful information to investors. An explicit identification of its sources and use of cash at the outset would also help an applicant to make precise and concise analysis of material changes in the underlying drivers of their performance.

#### Analysis of material changes in the underlying drivers

11. All 16 applicants disclosed a year-by-year analysis of their cash flow statements and commented on the major causes of changes in cash flows during the track record period. For example, a property investment company disclosed that the transfer of operating rights of certain property projects and the collection of transfer proceeds constituted the single largest item that positively affected the cash flow.

12. There are also applicants who identified explicitly the key sources of their cash. For

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example:-

*“Fluctuation of borrowing levels was caused by amount of payments we received from major customers ... Different from previous years, one of the major customers deferred the payments from end of 2007 to 2008. As such, the borrowing level was substantially higher than those in the previous year.”*

### Guidance 3

#### Analysis and information of factors that have a material impact on liquidity

13. The Guidance requires the disclosure of an analysis and information of factors that would have a material impact on a listing applicant's liquidity. This may include:-
  - funds necessary to meet contractual obligations, maintain current operations, complete projects underway and achieve stated objectives or plans;
  - commitments for capital or other major expenditures;
  - the likelihood of future cash requirements associated with known trends and uncertainties, and an indication of the time periods in which resolution of the uncertainties is anticipated; and
  - relevant legal/regulatory requirements and/or restrictions.
  
14. All 16 applicants included information on different categories of capital commitments, operating lease commitments, off-balance sheet commitments, etc. In particular, certain applicants that would incur significant capital expenditures in the near future (such as companies engaged in mining and petrochemical businesses) included enhanced disclosures on, for example:-
  - amounts for the capital expenditure on major projects;
  - sources and amount of funds earmarked for major projects; and
  - estimated cash payment and receipts of the applicant for two years, etc.

### Guidance 4

#### External financing plans and impact on cash position and liquidity

15. The Listing Division notes that 14 out of 16 listing documents had no specific disclosure on external financing plans although they ordinarily included a statement to the effect that borrowings from banks would be one of their sources of funds in addition to internally generated cash flows and equity. Accordingly, the disclosure suggests that the relevant listing applicants had no material external financing. The other two listing documents disclosed negative statement to clarify the listing applicants' positions.
  
16. The Listing Division considers that a negative statement to clarify the existence of external financing plans should be included in listing document.

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*Guidance 5*

Material covenants related to outstanding debt

17. All applicants included disclosures on their banking facilities, including:-
- total amount of the available facilities;
  - indebtedness as at the most recent practicable date;
  - maturity profile;
  - interest rates; and
  - security and guarantees, etc.
18. The absence of disclosure on material covenants suggests that there was no material covenant. One applicant engaged in mining business included the nature and details of its material covenants, including:-
- the maintenance of certain financial service cover ratios throughout the tenure of a project finance loan; and
  - criteria to be met before it would be allowed to declare a dividend.
19. To further enhance clarity, listing applicants should include a negative statement on whether there are any material covenants relating to their outstanding debts.

*Guidance 6*

Other relevant information

20. As different applicants have different capital structures and face different business environments, the items mentioned in the Guidance are not meant to be exhaustive. While Guidance 1 to 5 represent the core contents the Listing Division expects, applicants are encouraged to disclose all other relevant information specific to their industries and businesses not covered in the Guidance.
21. In light of the recent global financial crisis, 13 of the 16 applicants discussed the impact of the financial crisis on their liquidity positions and business prospects. Information included whether the availability of existing banking facilities was affected by the deterioration of the credit market, whether the applicants have suffered from any cancellation of orders or default in payments by customers.

**Conclusion**

22. The Listing Division considers that the current standard of disclosure is in general in line with the expectation set out in the Guidance.

Issued by: Listing Division  
October 2009