

## HKEX GUIDANCE LETTER

HKEX-GL37-12 (June 2012) (updated in July 2013, September 2013, January 2014 and April 2019)

**[Streamlined and incorporated into the Guide for New Listing Applicants in January 2024]**

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| <b>Subject</b>              | <b>Guidance on disclosure on financial information and prospects of new applicants</b>   |
| <b>Listing Rules</b>        | <b>Main Board Rules 2.03(2), 8.21A, 9.11(17b), 9.11(28) and Paragraphs 32, 36 and 38 of Part A of Appendix 1</b><br><b>GEM Rules 2.06(2), 12.22(13), 12.23A(1) and Paragraphs 32, 36 and 38 of Part A of Appendix 1</b>  |
| <b>Related Publications</b> | <b>Guidance Letter HKEX-GL98-18 – Guidance on disclosure in listing documents - listing applicants' names; statistics and data quoted; listing document covers; non-disclosure of confidential information; and material changes after trading record period (“GL98-18”)</b> |
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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.*

### 1. Purpose

- 1.1 This letter provides guidance to new applicants and their advisers on the Liquidity Disclosure (as defined in paragraph 4.2 below), disclosure on working capital sufficiency and the Material Adverse Change Disclosure (as defined in paragraph 4.8 below). **(updated in April 2019)**
- 1.2 The Exchange expects new applicants to follow this guidance letter when preparing their listing applications. An Application Proof that does not follow this guidance may be considered not substantially complete as required under the Listing Rules. **(added in July 2013)**

2. **Introduction** (*deleted in April 2019*)

3. **Relevant Listing Rules** (*deleted in April 2019*)<sup>1</sup>

4. **Guidance**

***Latest Practicable Date (added in April 2019)***

- 4.1 A new applicant should disclose in the listing document quantitative and qualitative information on its financial information and/ or operating data after the trading record period and up to the “**Latest Practicable Date**”<sup>2</sup>, except for the Liquidity Disclosure as discussed in paragraph 4.4 below. The Latest Practicable Date should be no more than ten calendar days before the date of the Application Proof or the final listing document, as the case may be. In Application Proofs, such information can be in brackets to indicate it will be updated.

***Liquidity Disclosure and the Most Recent Practicable Date (updated in April 2019)***

- 4.2 Paragraph 32 of Part A of Appendix 1 to the Main Board Rules and GEM Rules requires a listing document to include a statement (or an appropriate negative statement) of a new applicant’s indebtedness as at a specified most recent practicable date (the “**Most Recent Practicable Date**”), and a commentary on its liquidity, financial resources and capital structure (together, the “**Liquidity Disclosure**”).
- 4.3 The Liquidity Disclosure should provide investors an understanding of a new applicant’s performance after the trading record period, and should help investors assess its prospects, its ability to generate cash and to meet its existing and expected future operating and capital requirements. The Liquidity Disclosure should not be a restatement of financial statement information in a narrative form, or a tabulation of financial data without analysis.

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<sup>1</sup> This section has been deleted to avoid duplication of the relevant Main Board and GEM Rules. Reference to the relevant Listing Rules is included in the body of the guidance letter.

<sup>2</sup> New applicants should refer to GL98-18 for guidance on disclosure of material changes after trading record period.

4.4 In view of the amount of time and effort required to prepare the Liquidity Disclosure, we will accept the Most Recent Practicable Date as a date no more than two calendar months before the date of the Application Proof or the final listing document, as the case may be. In Application Proofs, such information can be in brackets to indicate it will be updated.

4.5 The Liquidity Disclosure should include the following, to the extent applicable:

- (a) respective amounts of total available facilities (including whether they are committed and unrestricted) and interest rates for each major type of borrowings;
- (b) the new applicant's net current asset (liabilities) position as at the Most Recent Practicable Date with composite assets and liabilities, and the management discussion and analysis on this position;
- (c) the major sources and uses of cash and an analysis of the material changes in the underlying drivers specific to the new applicant's business (e.g. cash flow mismatch for a new applicant in (i) construction industry in relation to payment for construction costs and collection from customers or (ii) financial leasing business regarding the repayment of borrowings and collection from customers);
- (d) minimum funding required to meet existing contractual obligations and maintain current operations; and committed and estimated amount of capital and other major expenditures. A new applicant which will incur significant capital expenditures in the near future should also disclose relevant information such as the sources and amounts of funds earmarked, estimated cash payments and receipts in the two years after listing (with key assumptions and basis thereof);
- (e) potential impact of known trends, uncertainties or changes in external factors (e.g. implementation of new legal/ regulatory requirements, changes in macroeconomic environment/ policies, project status) on the new applicant;
- (f) discussion of material covenants and undertakings in relation to the new applicant's outstanding debts, guarantees or other contingent obligations, and an analysis of their impact on the new applicant's ability to undertake additional debt or equity financing, or a negative statement if none; and

- (g) discussion and analysis of material external financing plans, including the amounts or range involved, the nature and the terms of the financing, the likelihood of obtaining the financing on acceptable terms.

***Working Capital Sufficiency (updated in April 2019)***

- 4.6 Main Board Rule 8.21A requires, among other things, a new applicant to include a working capital statement in its listing document. New applicants with net current liabilities, negative operating cash flows for most of the trading record period, significant capital commitments, high gearing ratios, and/ or significant reclassification of long-term debts to short-term debts have greater liquidity risk and therefore should include more detailed disclosure on their working capital sufficiency. This should include:
- (a) the basis of the directors' view on the Group's working capital sufficiency as required under Paragraph 36 of Part A of Appendix 1 to the Main Board Rules and GEM Rules (the "**Working Capital Sufficiency Statement**") and the basis upon which the sponsor concurs with the directors' view. If material, relevant stress tests on the key assumptions underlying the directors' view should be disclosed; and
  - (b) directors' confirmation on whether the new applicant had material defaults in payment of trade and non-trade payables and borrowings, and/ or breaches of covenants during the trading record period and up to the date of the listing document (see paragraph 4.8 below).
- 4.7 At the time of submission of an Application Proof, a sponsor is required to submit an advanced draft of a letter confirming that it is satisfied with the Working Capital Sufficiency Statement<sup>3</sup>. The advanced draft letter does not have to include a confirmation that persons or institutions providing finance have stated in writing such facilities exist. Such confirmation is only required in the sponsor's final letter submitted before the bulk-printing of the listing document<sup>4</sup>.

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<sup>3</sup> Main Board Rule 9.11(17b) (GEM Rule 12.22(13))

<sup>4</sup> Main Board Rule 9.11(28) (GEM Rule 12.23A(1))

***Material Adverse Change Disclosure (added in April 2019)***

- 4.8 Paragraph 38 of Part A of Appendix 1 to the Main Board Rules and GEM Rules requires a statement (or an appropriate negative statement) by the directors on any material adverse change in the financial or trading position of the group since the end of the period reported on in the accountants' report (the "**Material Adverse Change Disclosure**").
- 4.9 The Material Adverse Change Disclosure should be included in the "Summary" and "Financial Information" sections of a listing document. The period covered by the Material Adverse Change Disclosure should be from the end of the trading record period and up to the date of the listing document. New applicants should also refer to GL98-18 for guidance on disclosure of material changes after trading record period.

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