

~~HKE~~**HKEX** GUIDANCE LETTER

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

~~-effective for applications submitted on or after 1 October 2013~~

[Updated to include relevant guidance from HKEX-GL38-12 which has been withdrawn]

Subject	Guidance on indebtedness, liquidity, disclosure on financial resources<u>information</u> and capital structure disclosure in listing documents and sponsor's confirmation on working capital sufficiency statement<u>prospects of new applicants</u>
Listing Rules and Regulations	Main Board Rules <u>2.03(2)</u> , 8.21A, 9.11(17b), 9.11(28) and Paragraphs 32, <u>36</u> and <u>3638</u> of Part A of Appendix 1 GEM Rules <u>2.06(2)</u> , 12.22(13), 12.23A(1) and Paragraphs 32, <u>36</u> and <u>3638</u> of <u>Part A of Appendix 1</u>
Related Publications	HKEx-GL38-12 - Guidance on the Latest Practicable Date and the latest date for Liquidity Disclosure in listing documents <u>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")</u>
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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 ~~Division~~Department on a confidential basis for an interpretation of the Listing Rules, or this letter.*

~~1. 4.~~ **Purpose**

~~1.1 This guidance letter is largely a reproduction of the letters issued to market practitioners on 21 July 2008 and 5 October 2009 on the same subject and updated based on the Exchange's current practices. It supersedes the two letters mentioned.~~

1.1 4.2 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. ~~2.~~ ~~Introduction~~ **(deleted in April 2019)**

3. ~~Relevant Listing Rules~~ **(deleted in April 2019)¹**

4. Guidance

2.1 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**”², 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 the GEM Rules (the “**Listing Rules**”) require that sufficient information should be given to potential investors to enable them to make requires a properly informed assessment of an issuer. ~~Applicants are required to listing document to include in their listing documents a working capital sufficiency statement and certain information, including a commentary regarding the applicants’ (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 Exchange considers that the Liquidity Disclosure should offer the management’s qualitative assessment provide investors an understanding of the various items being discussed. ~~This Guidance is published to assist applicants a new applicant’s performance after the trading record period, and their advisers should help investors assess its prospects, its ability to generate cash and~~

¹ 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.

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

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.

4.4 In view of the amount of time and effort required to prepare the Liquidity Disclosure and the sponsor's confirmation on the working capital sufficiency statement, 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.

~~3.~~ **Relevant Listing Rules**

- ~~3.1 Main Board Rule 8.21A requires a new applicant to include a working capital statement in its listing document. In making this statement, the applicant must be satisfied after due and careful enquiry that it and its subsidiary undertakings, if any, have available sufficient working capital for the group's present requirements, that is for at least the next 12 months from the date of the listing document.~~
- ~~3.2 Main Board Rule 9.11(17b) (GEM Rule 12.22(13)) requires that where the Application Proof is required to contain a statement by the directors as to the sufficiency of working capital, an advanced draft of a letter from its sponsor confirming that it is satisfied that the working capital sufficiency statement in the Application Proof has been made by the directors after due and careful enquiry. (added in July 2013)~~
- ~~3.3 Main Board Rule 9.11(28) (GEM Rule 12.23A(1)) requires that before a listing document is bulk-printed, an applicant should submit a final letter from its sponsors confirming that it is satisfied that the directors' statement on working capital sufficiency has been made by the directors after due and careful enquiry and that the persons or institutions providing finance have stated in writing that such facilities exist. (added in July 2013)~~
- ~~3.4 Paragraph 32 of Part A of Appendix 1 to the Listing Rules ("**Paragraph 32**") requires a listing document to include a statement as at the most recent practicable date (which must also be stated) of the total amount of any debt securities, borrowings, indebtedness, mortgages, charges, contingent liabilities and guarantees, of the new applicant on a consolidated basis (the "**Indebtedness Statement**"). Paragraph 32(5) of Part A of Appendix 1 to the Listing Rules ("**Paragraph 32(5)**") also requires a listing document to include a commentary on the new applicant's (i) liquidity and financial resources; and (ii) capital structure.~~
- ~~3.5 Paragraph 36 of Part A of Appendix 1 to the Listing Rules ("**Paragraph 36**") requires the listing document to include a statement by the directors that in their opinion the working capital available to the group is sufficient for the group's requirements for at least 12 months from the date of the listing document or, if not, how it is proposed to provide the additional working capital considered by the directors to be necessary.~~

~~4.~~

~~1.~~ **The Guidance**

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

- ~~4.1 For the purpose of Paragraph 32, the Exchange ordinarily requires the Indebtedness Statement to be as at the most recent practicable date (see Guidance Letter HKEx-GL38-12). (updated in July 2013)~~
- ~~(a) 4.2 An applicant is ordinarily expected to disclose in its Indebtedness Statement details of its banking and other facilities as at the most recent practicable date (see Guidance Letter HKEx-GL38-12) including, among~~

~~others, the~~ respective amounts of total available facilities (including whether they are committed and unrestricted) and ~~indebtedness, maturity profile, interest rates, security and guarantees.~~ (updated in July for each major type of borrowings;
~~2013)~~

~~4.3 The Exchange also considers that information required under Paragraph 32(5) is critical to an assessment of an the new applicant's future prospects, its ability to generate cash and to meet its existing and known or reasonably likely future cash requirements. It should not merely be a restatement of financial statement information in a narrative form, or simply a tabulation of financial data without any commentary or analysis. An applicant is ordinarily expected to disclose the following in its listing document:-~~

~~(b) (a) in the Financial Information section, its net current asset (liabilities) position stating the as at the Most Recent Practicable Date with composite assets and liabilities as at the most recent practicable date (see Guidance Letter HKEx-GL38-12), and the management discussion and analysis on this position (updated in July 2013);~~

~~(b) an analysis and explanation of the major sources and uses of cash and an analysis of the material changes in the underlying drivers (e.g. cash receipts from sales of goods and cash payments to acquire inventories). As different applicants have different business models, the presentation of their sources and uses of cash may vary. Accordingly, some specific disclosures relating to an the new applicant's principal businesses may provide more relevant and useful information to investors. An explicit identification of its sources and uses of cash at the outset would also help an applicant provide a precise and concise analysis of material changes in the underlying drivers of its performance;~~

~~(c) an analysis and information of factors that would have a material impact on an applicant's liquidity. This may include:-~~

~~(i) funds necessary to meet contractual obligations, maintain current operations, complete projects underway and achieve stated objectives or plans;~~

~~(c) (ii) commitments business (e.g. cash flow mismatch for capital or 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. —An A new applicant which will incur significant capital expenditures in the near future should include enhanced disclosures in its listing document also disclose relevant information such as (1) amounts for the capital expenditure on major projects; (2) the sources and amounts of funds earmarked for major projects; and (3) estimated cash payments and receipts of in the applicant for the next two years, etc.; after listing (with key assumptions and basis thereof);~~

~~(iii) the likelihood of future cash requirements associated with potential impact of known trends and uncertainties, and an indication of the time periods in which resolution of the~~

uncertainties is anticipated; and

(e) (iv) relevant or changes in external factors (e.g. implementation of new legal/regulatory requirements and/or restrictions; changes in macroeconomic environment/ policies, project status) on the new applicant;

~~(d) — where an 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 range involved, the likelihood of obtaining the financing on terms acceptable to the applicant, the nature and the terms of the financing, other features of the financing and plans, and the impact on the applicant's cash position and liquidity. — A listing document should include a negative statement if there are no external financing plans;~~

~~(f) (e) — a discussion and analysis of material covenants related to and undertakings in relation to the new applicant's outstanding debts (or covenants applicable to the companies or third parties in respect of, guarantees or other contingent obligations), and the an analysis of their impact of debt covenants (or other covenants/ undertakings) on anthe new applicant's ability to undertake additional debt or equity financing, etc.. A listing document should includeor a negative statement if there are no material covenants relating to an applicant's outstanding debtsnone; and~~

~~(f) — any other information on an applicant's indebtedness, liquidity, financial resources and capital structure that would be material to an investor to make an informed assessment of the applicant's financial position and prospects. For example, the impact of any deterioration of the credit markets and/ or tightened monetary policies on the applicant's liquidity positions and business prospects including whether the availability of existing banking facilities is affected, or the applicant has suffered from any cancellation of orders or default in payments by its customers.~~

~~(g) 4.4 In addition to the above, fordiscussion 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 tracktrading record period; significant capital commitments; high gearing ratios; and/ or significant reclassification of long-term debt debts to short-term debts, they are expected to disclose the following in have greater liquidity risk and therefore should include more detailed disclosure on their listing documentsworking capital sufficiency. This should include:~~

~~(a) (a) the basis, with specific reference to the applicant's facts and circumstances, upon which the of the directors form the' view thaton the listing applicant can meet theGroup's working capital requirements for at least the next 12 months from the date of the listing documentsufficiency 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, with the basis, whether upon which the sponsor concurs with the directors' view. This should include, where If material, relevant stress tests on the key assumptions underlying the directors' view should be disclosed; and (updated in January 2014)~~

~~(b) (b) directors' confirmation on whether the new applicant had material defaults in payment of trade and non-trade payables and bank borrowings, and/ or breaches of finance covenants during the tracktrading record period. (added in July 2013) and up to the date of the listing document (see paragraph 4.8 below).~~

~~Sponsor's confirmation on working capital sufficiency statement~~

~~4.5A~~ At the time of submission of ~~a listing application and~~ an Application Proof, a sponsor is required to ~~provide a final or submit~~ an advanced draft ~~confirmation of a letter~~ confirming that ~~the working capital sufficiency statement in the Application Proof has been made by the directors after due and careful enquiry (Main Board Rule 9.11(17b)/ GEM Rule 12.22(13)).~~ The sponsor is ~~expected to have reviewed the working capital forecast memorandum and must be~~ it is satisfied with the bases and assumptions used in the preparation of the working capital forecast. However, the sponsor is **not required** to confirm upon submission of an Application Proof that ~~the~~Working Capital Sufficiency Statement³. The advanced draft letter does not have to include a confirmation that persons or institutions providing finance have stated in writing such facilities exist ~~(added in September 2013 and updated in January 2014).~~

~~4.7~~ ~~4.5~~ Before a listing document is bulk-printed, a sponsor is required to provide a final. Such confirmation ~~letter on the working capital sufficiency statement in the listing document under Main Board Rule 9.11(28) (GEM Rule 12.23A(1)).~~ This final confirmation letter should be based on the sponsor's own due diligence work, ~~the applicant's confirmation referred to in Paragraph 36 and the reporting accountants'~~ is only required in the sponsor's final letter submitted before the bulk-printing of the listing document⁴.

³ Main Board Rule 9.11(17b) (GEM Rule 12.22(13))

⁴ Main Board Rule 9.11(28) (GEM Rule 12.23A(1))

~~confirmation to the applicant (which should be copied to the sponsor, the Exchange and the Securities and Futures Commission). Both the sponsor and the reporting accountants' confirmation should be made on the same date. As required under the Listing Rules (see paragraph 3.3), a sponsor is required to confirm in the final confirmation letter that it is satisfied that the directors' statement on working capital sufficiency has been made by the directors after due and careful enquiry and that the persons or institutions providing finance have stated in writing that such facilities exist (added in July 2013 and updated in September 2013).~~

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.
