

LE Paper 11 Corporate Finance

Syllabus (Effective from 1 February 2025)

Topic 1: Overview of the corporate finance industry

- 1 What is corporate finance?
 - Intermediation
 - Characteristics of financial markets
 - Securities
 - Equity and debt
 - Hybrids
 - Derivatives
 - Types of financial markets
 - Trading systems
 - Quality control in international securities markets
 - Liquidity in securities markets
 - Globalisation of financial markets
- 2 Types of organisation
 - Sole proprietor
 - Partnership
 - Unincorporated joint venture
 - Companies
 - Government and semi-government agencies
 - Other exotic types of incorporated entity
- 3 Problems faced by the finance industry
 - Problems and pitfalls in the finance industry
 - Ethics
 - Corporate governance
 - The finance industry, auditing and accounting

Topic 2: Accounting and financial statement analysis

- 1 Background
 - Accounting assumptions and principles
 - Accrual accounting – working examples

- Accounting standards — local and international
 - Accounting guidelines
 - Risk disclosure
- 2 Reading and understanding financial statements
 - What is the reader looking for?
 - Statement of accounting principles
 - Statement of financial position
 - Current versus non-current
 - Classification of non-current assets
 - Spreading non-current assets over their useful life
 - Income statement
 - Cash flow statement
 - Notes to the financial statements
 - Creditors, accruals, provisions and contingencies
 - Shareholders' equity: capital, reserves and retained earnings
 - Segment reporting
 - Related-party transactions
 - 3 Are financial statements and financial accounts adequate?
 - Cosmetic accounting
 - Context
 - 4 Using this information
 - Ratio analysis
 - Cash-flow analysis
 - 5 Special topics in accounting
 - Accounting for business combinations
 - Accounting for asset securitisation
 - Accounting for derivatives and hedging activities
 - Foreign currency translation
 - 6 Putting it all together: financial analysis

Topic 3: Principles of corporate finance

- 1 Basic principles

- Uncertainty and risk
 - The time value of money
 - Risk and return
 - Interest and discount
 - Cost of capital
 - Alternative methods of calculating the cost of equity
 - Financial leverage and capital structure
 - Taxation
- 2 Capital budgeting
- The decision process
 - Generation of investment proposals
 - Initial screening of proposals
 - Capital budgeting process
 - Detailed analysis of projects under consideration
 - Working capital
 - Selection and approval
- 3 Application of these principles
- Alternative methods and considerations in evaluating investment proposals
 - Structuring the finance
 - Building a corporate finance structure to suit a company's needs
- 4 Corporate collapse
- Causes of corporate collapse
 - Warning signals of failure
 - Trajectories of failure
 - Identifying the appropriate strategy for dealing with collapse
 - Implementing strategies for management of non-performing equities and non-performing loans
- 5 Infrastructure finance
- Assessing potential infrastructure projects
 - Project participants
 - Types of infrastructure financing risks and their allocation or mitigation

- Structuring infrastructure finance
- 6 General principles of conduct in a corporate finance office

Topic 4: Equity financing

- 1 Capital needs of companies
 - The financing cycle of a company
- 2 Forms of equity financing
 - Ordinary shares
 - Special features of Hong Kong and PRC markets
 - Preference shares
 - Non-voting shares
 - Other products
 - Options
 - Concerns about stock options
 - Warrants
 - Hybrids
- 3 Considerations in devising equity structures
 - Taxation
 - Family shareholdings
 - Maintenance of control
 - Financing considerations
 - Rights issues
 - Incentives
- 4 The capital-raising process
 - Prospectus
 - Advisers to issuers
 - Underwriting
 - Vetting and approval by SEHK
 - Marketing the float
 - Allocation of shares
 - Listing date and thereafter
 - ESG matters

- 5 Venture capital
 - Start-up and early-stage financing
 - Key characteristics
 - Linkages between cash flow analysis and venture capital financing
 - Other types of venture capital financing
 - Sources of repayment
 - Alternative capital raising methods for venture capital or private equity
- 6 Corporate governance and its role in equity financing
 - Definition of corporate governance
 - Asian corporate governance
 - Strengthening corporate governance

Topic 5: Debt financing

- 1 Characteristics of debt
 - Short-term versus long-term
 - Secured versus unsecured
 - Credit foncier versus bullet repayment
 - Intermediation versus debt securities
- 2 Types of debt financing
 - Conventional bilateral loans
 - Multilateral facilities
 - Commercial paper
 - Medium-term lending
 - Bonds
 - Convertible bonds
 - Asset-based finance
 - Securitisation
- 3 Process of approval of loans
- 4 Determining the appropriate debt structure
 - Debt service capacity
 - Fixed or floating
 - Drawn or stand-by

- Taxation
 - On-balance sheet or off-balance sheet
 - Domestic or international sources of funding
 - Public or private funding
- 5 International debt markets
- What international markets are available?
 - Why use international markets?
 - Who are the investors?
- 6 Securitisation
- Benefits of securitisation
 - Potential pitfalls of securitisation
 - Development of securitisation markets
 - Range of assets capable of being securitised
- 7 Managing debt
- Monitoring and management
 - Annual review

Topic 6: Business valuation

- 1 Essential principles
- Purpose of valuation
 - Investment objectives of clients
 - Professional valuation versus ad hoc/kerbside valuations
 - Disclosure of valuation methodology and assumptions
 - Valuation at a point in time
- 2 Valuation techniques
- Undiscounted valuation
 - Discount valuation with internal data
- 3 The company and its industry
- Understanding the industry in which a company operates
 - Understanding the business environment
 - Understanding the industry-specific competitive pressures
 - Identifying changes to the competitive environment

- Assessing sustainability
- Focus of management team
- 4 Pricing issues of “new economy” companies
 - Implications of “new economy” multiples
- 5 Valuation of business under special situations
 - Takeovers
 - Mergers
 - Liquidations
 - Market downturns
 - Divestiture
 - Boom valuations, bubble valuations and changed bases of valuation

Topic 7: Mergers and acquisitions

- 1 Overview of mergers and acquisitions
 - Motives
 - Social and economic implications
 - The players
 - Ethical issues
- 2 Structuring a takeover
 - The mechanics of a takeover
 - Takeover strategies
 - Legal issues
- 3 The target
 - Choosing the appropriate strategy
 - Pre-emptive versus reactive defensive strategies
- 4 Directors’ duties in a takeover