

HKE_x LISTING DECISION

HKE_x-LD81-2014 (Published in January 2014) (Withdrawn in October 2020)

[This Listing Decision is superseded by the Rule amendments to exempt Main Board Issuers that are banking companies or insurance from including a working capital statement in listing documents and transaction circulars. The amended Rules became effective on 1 October 2020.]

Party	Company A - a Main Board issuer
Issue	Whether the Exchange would waive the requirements relating to the inclusion of a statement of sufficient working capital in Company A's listing document for a rights issue
Listing Rules	Main Board Rules 9.20(1) and Paragraph 30 of Appendix 1B
Decision	The Exchange waived the requirements

FACTS

1. Company A was principally engaged in the business of providing insurance products in the PRC.
2. Company A proposed to conduct a rights issue. Under the Rules, it was required to:
 - include in its listing document for the rights issue a statement by the directors as to whether the group has sufficient working capital for its requirement for at least 12 months from the date of publication of the listing document; and
 - provide the Exchange with a confirmation letter from its financial advisers or auditors that the working capital statement has been made by the directors after due and careful enquiry and the persons or institutions providing finance have stated in writing that such facilities exist (together, the **Requirements**).
3. Company A applied for a waiver from the Requirements for the following reasons:
 - It considered that the working capital statement would not provide significant information for its shareholders. Under the relevant PRC insurance laws and regulations, insurance companies were required to maintain sufficient capital commensurate with its risk exposure and scale of business to ensure a solvency margin ratio of no less than 100%. The solvency margin and capital adequacy would be more relevant for an insurance business as indicators of its financial

condition, strength and ability to meet its capital needs or claims from policyholders as a going concern.

- Company A's solvency and capital adequacy were subject to prudential supervision by the China Insurance Regulatory Commission (**CIRC**). It was also required to file various periodic solvency reports with the CIRC based on the solvency assessment requirements.
- It would be burdensome for Company A to comply with the Requirements in light of the additional time and costs involved in preparing the working capital statement.
- Alternatively, Company A would include in the listing document: (i) the relevant solvency and capital adequacy requirements for insurance companies in the PRC; and (ii) Company A's solvency margin ratios for the latest three financial years.

APPLICABLE LISTING RULES

4. Rule 7.22 states that:

“A rights issue must be supported by a listing document which must comply with the relevant requirements of Chapter 11.”

5. Rule 9.20(1) states that:

“The following documents must be submitted to the Exchange before bulk-printing of the listing document: -

- (1) if the listing document contains a statement as to the sufficiency of working capital, a letter from the issuer's financial advisers or auditors, confirming that:
 - (a) the statement has been made by the directors after due and careful enquiry; and
 - (b) persons or institutions providing finance have stated in writing that such facilities exist; and

...”

6. Rule 11.06 states that:

“Subject to rule 11.09, listing documents must contain all of the specific items of information which are set out in either Part A, B, E or F of Appendix 1 (as the case may be). ...”

7. Paragraph 30 of Appendix 1B requires a 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 publication of the listing document or, if not, how it is proposed to provide the additional working capital thought by the directors to be necessary. ...”
8. In the case of a new listing application, Rule 8.21A(2) states that:
- “The Exchange will not require a working capital statement to be made by a new applicant, whose business is entirely or substantially that of the provision of financial services, provided the Exchange is satisfied that:
- (a) the inclusion of such a statement would not provide significant information for investors; and
 - (b) the new applicant’s solvency and capital adequacy are subject to prudential supervision by another regulatory body.”

ANALYSIS

9. The working capital statement provides information for shareholders to assess the liquidity and financial position of the issuer.
10. When deciding whether to grant a waiver from the Requirements, the Exchange will consider the circumstances and reasons outlined in the waiver application and all other relevant information supplied by the issuer. The Exchange will also apply the principles under Rule 8.21A(2) when assessing individual cases that fall under the circumstances specified in the Rule.
11. In this case, the Exchange agreed to waive the Requirements taking into account the following:
- Company A was an insurance company, and its solvency and capital adequacy were subject to prudential supervision by the regulatory body for the insurance business in the PRC.
 - The alternative disclosures proposed by Company A would enable its shareholders to assess the solvency and liquidity of the group. The Exchange agreed with Company A that a working capital statement would not provide significant information for investors in its case.

CONCLUSION

12. The Exchange granted the waiver to Company A.