HKEX LISTING DECISION

HKEX-LD119-2018 (March 2018)

Summary	
Parties	Company A to Company C – GEM listing applicants whose listing applications were rejected by the Exchange in 2017[1]
Issue	To provide guidance on why the Exchange rejected certain listing applications
Listing Rules	GEM Rule 2.09 and Chapter 11
Related Publications	HKEX-GL68-13, HKEX-GL68-13A, HKEX-LD92-2015, HKEX-LD100-2016, HKEX-LD107-1 and HKEX-LD107-2017
Decision	The Exchange rejected the listing applications

PURPOSE

1. This Listing Decision in the Appendix sets out the reasons the Exchange rejected certain listing applications from 1 January to 31 December 2017. For listing applications that were rejected before this period, please refer to the listing decisions and guidance letters stated in "Related Publications" above.

APPLICABLE LISTING RULES

2. Chapter 11 of the GEM Rules sets out detailed eligibility requirements which a new applicant must fulfill and state that both the applicant and its business must, in the opinion of the Exchange, be suitable for listing.

3. GEM Rule 2.09 states that suitability for listing depends on many factors. Compliance with eligibility requirements under the Listing Rules does not itself ensure an applicant's suitability for listing. You may refer to HKEX-GL68-13 and HKEX-GL68-13A which provide guidance on the factors that the Exchange would take into consideration when assessing whether an applicant and its business are suitable for listing under GEM Rule 11.06.

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[1] This does not include two GEM listing applications which were rejected by the Securities and Futures Commission under section 6(2) of the Securities and Futures (Stock Market Listing) Rules.

Appendix

<table>
<tr><th colspan="2">Rejection cases in 2017</th></tr>
<tr><th>Company</th><th>Reasons for rejection</th></tr>
<tr><td>Company A

(a GEM Applicant)</td><td>Company A operated a printing business.

The application was rejected on suitability grounds on a number of factors:

• Company A's controlling and substantial shareholders had previously established, listed and disposed of a printing business. In particular, they sold their interests in this printing business shortly after their lock-up expired. This raised concern on whether the shareholders would be committed to nurture Company A in the long-run.

• Company A did not substantiate its business need to substantially expand its facilities and human resources. In addition, Company A could have funded its expansion plan with internal sources, and did not demonstrate that it seem to need external funding. The use of proceeds was not commensurate with its historical and future business strategies.</td></tr>
<tr><td>Company B

(a GEM Applicant)</td><td>Company B operated restaurants in Hong Kong.

The application was rejected on suitability grounds since the sustainability of Company B's business was extremely uncertain due to the following factors:

<u>Low and declining profit margin</u>

During the track record period, half of Company B's restaurants were loss-making and some closed down. Company B's profit-making restaurants also recorded declining operating margins mainly due to the slowing economy and increase in rental and labour costs. Despite the various measures implemented to reduce cost and improve revenue, Company B's net profit margins remained low and below inflation. Assuming restaurant operating costs and headquarter overhead further increased in line with inflation, Company B may not be able to sustain its business after listing.

<u>Susceptibility to escalating rental costs</u>

All of Company B's restaurants operated on leased properties and rental expenses as a percentage of Company B's revenue had been increasing during the track record period. Rental cost in Hong Kong remains high and is a market threat to restaurant operators. Company B is particularly sensitive to escalating rental expenses given that (a) it recently closed down a full service restaurant due to rental increase; and (b) restaurant operators generally have lower bargaining power when negotiating lease</td></tr>
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Rejection cases in 2017	
Company	**Reasons for rejection**
	renewals given the significant capital expenditure incurred to set up restaurants and the reinstatement costs in the event of non-renewal. *Short lease period* Most of the lease agreements of Company B's restaurants were for two to three years only without an option for renewal. As at the latest practicable date, a majority of Company B's restaurants lease agreements will expire in less than one year and Company B had not been able to reduce its rent when renewing its leases after the track record period. There is an imminent risk that these leases may be renewed on unfavourable terms.
Company C (a GEM Applicant)	Company C was an entertainment content provider in Hong Kong which organised and produced concerts for its artistes and produced concerts for other concert organisers. The listing application was rejected on eligibility grounds because Company C was not able to comply with the ownership continuity and control requirement under GEM Rule 11.12A(2) based on the following: (i) during its most recent financial year, one of its three controlling shareholders (the "**Former Controlling Shareholder**") ceased to be a controlling shareholder. The sponsor failed to demonstrate that the Former Controlling Shareholder was a passive shareholder during the relevant track record period; and (ii) after its most recent financial year but before the date of listing, there was a material change in the voting interests between the two remaining controlling shareholders, who constitute a group of controlling shareholders .