HKEX LISTING DECISION
HKEX-LD100-2016 (published in April 2016)

Summary	
Parties	Company A to Company G – Main Board and GEM listing applicants whose applications were rejected by the Exchange in 2015
Issue	To provide guidance on why the Exchange rejected certain listing applications
Listing Rules	Main Board Rules 2.06 and Chapter 8 GEM Rules 2.09 and Chapter 11
Related Publications	HKEX-GL68-13, HKEX-LD92-2015
Decision	The Exchange rejected the applications.

PURPOSE

1. This Listing Decision in the Appendix sets out the reasons why the Exchange rejected certain listing applications from 1 January to 31 December 2015.

APPLICABLE LISTING RULES

2. Chapter 8 of the Main Board Rules and Chapter 11 of the GEM Rules set 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. Main Board Rule 2.06 and GEM Rule 2.09 state that suitability for listing depends on many factors. Applicants for listing should appreciate that compliance with Listing Rules may not itself ensure an applicant's suitability for listing. You may refer to HKEX-GL68-13 which provides guidance on the factors that the Exchange would take into consideration when assessing whether an applicant and its business are suitable for listing under Main Board Rule 8.04 (GEM Rule 11.06).

****

Rejection cases in 2015	
Company	**Reasons for rejection**
Company A (a Main Board Applicant)	Company A was a mining company whose principal operations and assets were in a high risk jurisdiction. The extreme uncertainties rendered Company A not suitable for listing and the application was rejected. The following factors, among other things, were taken into account: (i) Company A's principal assets and operations were located in a jurisdiction with legal and political uncertainties and a high Corruption Perceptions Index[1] in accordance with Transparency International. These uncertainties and concerns gave rise to questions as to whether Company A could carry out its business in a viable manner or retain ownership of its assets; and (ii) there were repeated delays in the trial production schedule for a major project during and after the track record period, and its other mining projects had ceased operation after the track record period pending renewal of Company A's exploration licence which had been outstanding since Company A's listing application was submitted.
Company B (a Main Board Applicant)	Company B was in a gambling-related business. Company B received income from casino operators for introducing VIP players to designated VIP rooms at the casino operators' venues. The VIP players were sourced and introduced by junket agents; and Company B paid these agents a commission accordingly. The application was rejected on suitability ground due to the following factors: *Deteriorating financial performance* (i) Company B's deteriorating financial performance during the track record period was unlikely to be short-term in light of the industry outlook and keen competition among peers; *Payments to a connected person were questionable* (ii) concerns over the completeness, accuracy and genuineness of the lump sum service fees paid to a connected person which represented a material portion of Company B's selling, general and administrative expenses during the track record period; and

[1] Corruption Perceptions Index is prepared by Transparency International which is the global civil society organisation leading the fight against corruption. It ranks countries according to their perceived levels of public-sector corruption relating to the bribery of public officials, kickbacks in public procurement, embezzlement of public funds, and questions that probe the strength and effectiveness of public-sector anti-corruption efforts.

Rejection cases in 2015	
Company	**Reasons for rejection**
	<u>Track record results not representative of future performance</u> (iii) Company B's track record results were not representative of its future performance due to material changes in its revenue model since the third quarter of the second year of the track record period with respect to the basis of calculating (a) the income received from the casino operators; (b) the commission payable to the junket agents; and the charges payable to a connected person for the provision of human resources and administrative services after the track record period.
Company C (a Main Board Applicant)	Company C provided services in the construction industry. The application was rejected due to the following factors: *<u>Material Impact Non-compliances</u>* (i) during the track record period, Company C undertook projects that exceeded the permitted scope of its qualification ("**Permitted Scope**") and its main operating subsidiaries also did not comply with the work safety licence requirement until shortly before the date of listing application (collectively, "**Material Impact Non-compliant Business**"); *<u>Inability to meet Main Board Rule 8.05(1)</u>* (ii) Company C had not demonstrated that after exclusion of the profit contributed by the Material Impact Non-compliant Business during the track record period, it could meet the minimum profit requirement under Main Board Rule 8.05(1)(a); and *<u>Directors' suitability under Main Board Rules 3.08 and 3.09</u>* (iii) Although Company C's directors had been aware of the breaches of the Permitted Scope before the track record period, Company C continued to enter into new contracts with contract values exceeding the Permitted Scope during the track record period. The directors were also aware that Company C was in breach of the work safety licence requirement but Company C continued to carry on its business without the work safety licences during most of its track record period. Company C and its sponsor did not satisfy the Exchange that Company C's directors had the integrity, competence and required level of skill, care and diligence as required under the Listing Rules.
Company D (a Main Board Applicant)	Company D was a mining company. Its mine commenced commercial production in 2014 and recorded immaterial revenue in 2014 and in the first half of 2015. Company D applied for a waiver from strict compliance with the requirements of Main Board Rule 8.05 under Main Board Rule 18.04.

<table>
<tr><th colspan="2">Rejection cases in 2015</th></tr>
<tr><th>Company</th><th>Reasons for rejection</th></tr>
<tr><td></td><td>
The application was rejected because of Company D's inability to meet the Main Board Rule 8.05(1). It was not qualified for the waiver under Main Board Rule 18.04 as it had not demonstrated that the mine had a clear path to commercial production and a demonstrable path to profitability based on the following factors:
(i) there was insufficient justification for Company D's breakeven analysis to substantiate the mine's profitability;
(ii) Company D had not demonstrated that it was able to generate sufficient funding for a planned increase of its annual designed mining capacity where approximately half of the required funding had to be derived from Company D's operating activities and/or future fund raisings. There were extreme uncertainties as to whether Company D had demonstrated its ability to sell its products as:
(a) it only had four customers during the track record period and all the sales agreements would expire in 2016;
(b) it had not fulfilled any of its existing sales commitments since it commenced commercial production in 2014;
(c) it was not able to demonstrate there would be sufficient demand for its products;
(d) it estimated an ambitious increase in sales volume of its low value by-product in 2017 by 17 times as compared with that in 2016 with no supporting data; and
(iii) there were uncertainties as to whether Company D would be able to renew its mining permit as it might not have sufficient funds to design and/or construct the relevant facilities and measures and pay relevant fees and taxes due to the reasons in (ii) above.
</td></tr>
<tr><td>
Company E
(a Main Board Applicant)
</td><td>
Company E was a property investment company.
The application was rejected after taking into account the totality of the following factors:
<u>No track record of current business structure</u>
(i) during the track record period, Company E invested in retail properties and had a number of investment properties. The business was operated by the controlling shareholder who was assisted by one staff member. In preparation for its listing, Company E employed 11 staff. There was no track record of Company E having operated as a business with its own personnel and established systems and processes. Company E did not have
</td></tr>
</table>

Rejection cases in 2015	
Company	**Reasons for rejection**
	a track record of the current structure to provide comfort on the effectiveness of its internal controls, management and operational systems which investors could rely on to assess Company E. In addition, there were questions on Company E's ability to comply with the management continuity requirement during the track record period; *Extreme reliance on fair value gains from investment properties to meet minimum profit requirement* (ii) Company E's reliance on the fair value gains from investment properties to meet minimum profit requirement was extreme as they accounted for more than 80% of its net profit during the track record period. Although reliance on fair value gains does no per se render an applicant engaged in a property business not suitable for listing (see paragraph 3.2(7) of HKEX-GL68-13), the Exchange was of the view that Company E's reliance on the fair value gains was extreme; and *Deteriorating financial performance* (iii) there was significant deterioration of Company E's financial performance after the track record period due to the poor market outlook; and increased finance costs and operating expenses. According to its forecast memorandum submitted to the Exchange, the downward trend would continue after listing and that Company E would continue to heavily rely on fair value gains rather than actual business operations. Company E had not satisfactorily demonstrated that its business was sustainable.
Company F (a GEM Applicant)	Company F was an exhibition organiser. The application was rejected on the basis that one of Company F's directors ("**Director A**") was not considered suitable under GEM Rules 5.01 and 5.02 for the following reasons: *Advances to third parties* (i) Director A had failed to fulfill his fiduciary duties and acted in good faith in the interests of Company F in respect of two advances to third parties made by Company F's subsidiaries at his instruction. These advances were significant to Company F but all were unsecured, interest-free and with no fixed repayment terms. These advances exposed Company F to significant credit risks and were in violation of the relevant laws and regulations. Further, Director A had failed to notify the relevant Company F's subsidiaries of the partial repayments received by him and deposited them into his personal account. The failure of Director A to inform Company F of

Rejection cases in 2015	
Company	**Reasons for rejection**
	the partial repayments received by him had resulted in material misstatements in the Company F's group audited accounts; and *Systemic Non-compliances* (ii) Company F failed to comply with the relevant laws and regulations in six instances related to its core business during its track record period. The systemic non-compliances were of a serious nature and raised questions as to whether Company F's directors (including Director A) were suitable under GEM Rules 5.01 and 5.02; and (iii) Company F did not enhance its internal controls to prevent reoccurrence of the systemic non-compliances until the Exchange commented on them. The enhanced internal controls therefore had not been tested for effectiveness.
Company G (a GEM Applicant)	Company G provided printing services. The application was rejected on suitability ground due to concerns on the sustainability of Company G's business. The following factors were taken into account: (i) deteriorating financial performance - there was a significant decline in Company G's net profit during the track record period. After the track record period, Company G's largest customer, which had contributed significantly to Company G's revenue during the track record period, shifted its orders of a specific product to Company G's competitor, leading to a significant decrease in Company G's forecast sales; (ii) Company G's profit forecast could not be substantiated – although its profit forecast took into account the loss of its largest customer, it was uncertain whether orders from new customers could compensate for the lost orders, as only a small part of the forecast revenue was made up of confirmed orders from new customers. Further, there were questions on Company G's forecast of a significant growth in its revenue as compared with its industry peers, given the mature nature of the industry and Company G's market share; (iii) intense competition – Company G was believed to have lost its largest customer due to price competition with its competitor. Company G might face further pricing pressures in order to attract new customers and to retain its existing customers which would lead to further deterioration of its future profitability; and (iv) purchase of new machines – Company G planned to use more than 90% of its net IPO proceeds to acquire new machines for its business despite the fact that the utilisation rates of its existing major machines were only between 46% and 55% during the track record period.

Rejection cases in 2015	
Company	**Reasons for rejection**
	The resulting additional depreciation charges arising from any new machines and the related additional fixed costs (such as cost of additional staff required to operate them, maintenance cost, etc.) would negatively impact on the Company G's future profitability. Further, there was no clear explanation on its strategy and the need for the additional machines.