

**HKE<sub>x</sub> REJECTION LETTER**  
**Cite as HKE<sub>x</sub>-RL4-05 (March 2005)**

Summary	
<b>Listing Rule</b>	GEM Listing Rule 11.01
<b>Reason for rejection</b>	Concerns on consistency and reliability of information submitted to the Listing Division
<b>Contents</b>	Extracts of the response of the Head of Listing, the Stock Exchange of Hong Kong Ltd

[Date]

[Name and Address of Sponsor]

Dear Sirs,

Re: Application for new listing of a GEM listing applicant  
(the “Company” together with its subsidiaries, the “Group”)

We refer to the Company’s applications dated [*\*day\*month\* year*] and [*\*day \*month\* year*] 2003, draft proofs of the prospectus, related documents and submissions made to the Division.

At the GEM Listing Committee held in [*mid 2003*], the Committee noted the concerns of the former reporting accountants of the Company (the “Former Reporting Accountants”), raised in their resignation letter of [*early*] 2003 over certain sales transactions conducted by the Group for [*financial year 2002*] (the “Sales Transactions”). In this regard, the Committee requested the following:-

- 1) A submission from the Former Reporting Accountants on whether they have withdrawn or will withdraw their opinion on the audited financial statements of the major operating subsidiary of the Company (the “Major Subsidiary”), for [*financial year 2002*] and whether the true and fair view expressed by the Former Reporting Accountants is still appropriate. If the Former Reporting Accountants have not withdrawn or will not withdraw their opinion and consider that the true and fair view is still appropriate, the submission should include the reason therefor.
- 2) A consent letter from the Former Reporting Accountants on the information disclosed in the Company’s draft prospectus (the “Prospectus”) as regards, in particular, the inclusion of the statement in the Prospectus that “the Former Reporting Accountants have not withdrawn their opinion that the financial statements of the Major Subsidiary for [*financial year 2002*] ... give a true and

fair view of the state of affairs of the Major Subsidiary as at *[the financial year end of 2002]* and of its profit for such year."

We have been given to understand that the Former Reporting Accountants were unable to complete their work on the Sales Transactions before they were asked to resign in *[early] 2003* and on this basis, could not conclude whether or not their audit opinion issued on *[a day several months after financial year 2002]* on the financial statements of the Major Subsidiary for *[financial year 2002]* should be revised. Accordingly, the Division is of the view that the Company cannot address the requirements of the Committee.

In the course of our review of the Sales Transactions, the Division has noted with concern certain inconsistencies in the facts presented in the submissions, including the following:

- 1) Discrepancies between the Former Reporting Accountants' representation and your representation on the method of settlement of the Sales Transactions. The Former Reporting Accountants were given to understand that certain Sales Transactions were settled by customers' cheques written to a director of the Company. The Former Reporting Accountants requested copies of customers' cheques as part of their audit procedure, which were not made available to them. Subsequent explanation to the Division indicated that the Sales Transactions were settled by the customers by cash paid directly to the director, and not by cheques as understood by the Former Reporting Accountants.
- 2) Upon further review of the Sales Transactions by the Division, certain representations were made which were not, in the Division's view, adequately explained or consistent with facts. For example:
  - Upon our enquiry of the reason for cash settlement by customers (as opposed to cheques or other means) in the Sales Transactions, you submitted that the Major Subsidiary is a small private company in an industry where cash settlement for small transactions is common. We noted that your explanation was not supported by the Company's settlement method used in other sales, given confirmations by the Group's current Reporting Accountants (the "Current Reporting Accountants"), that all transactions, other than the Sales Transactions, were settled by cheques to the Company directly. We also noted that the amounts of the Sales Transactions ranged from HK\$[\*] to HK\$[\*].
  - Your explanation that "since the director was responsible for, among others, customer relationship and collection of sales proceeds from customers, it is considered more convenient for the director to collect cash from customers directly to offset the amount due to him by the Major Subsidiary does not explain the unique treatment of the Sales Transactions, in particular, why the arrangement for customers' settlement through current account with the Group was limited to (i) the Sales Transactions only; and (ii) only with *[Mr. X]*, one of the directors of the Company and not the other directors or senior management of the Company.

- Upon our enquiries you submitted that the director had received consent from the Board of directors for the settlement of the Sales Transactions in cash to him directly. However, we were subsequently informed that the item was orally agreed before the settlement and ratified in [\*] 2003, after our request for evidence of the Board's consent.
- 3) We also reiterate our concerns on the consistency and reliability of information previously provided to the Division:
- You submitted, in your letter of [early] 2003, that the reason for postponing the listing was that the Former Reporting Accountants had been unable to issue their accountants' report in time due to a change of their then partner-in-charge. When the listing application was later resubmitted, you continued to be not forthcoming with the real reason. On the contrary, you confirmed that there were no major issues that ought to be brought to our attention. The real reason for the Former Reporting Accountants' resignation as stated in their letter of [early] 2003 was not revealed until [almost three months later] after persistent enquiries by the Division.
  - You failed to identify and bring to our attention the connected transaction between the Group and an associate of the Company's controlling shareholder which formed part of the Sales Transactions.

Having regard to the concerns raised above, the Division has decided to reject the listing application of the Company.

*[Portion of Letter Purposely Omitted]*

Pursuant to Chapter 4 of the GEM Listing Rules, the Company has the right to have this decision review by the GEM Listing Committee.

*[Portion of Letter Purposely Omitted]*

Yours faithfully,  
For and on behalf of  
The Stock Exchange of Hong Kong Limited

*[Signed]*

Head of Listing