

HKE_x REJECTION LETTER
Cite as HKE_x-RL6-05 (March 2005)

Summary	
Listing Rules	Listing Rules 8.08(2) and 8.09(2)
Reasons for rejection	Failure to satisfy the minimum requirement of 300 shareholders as at the date of listing as required under Rule 8.08(2); Failure to meet the expected market capitalization at the time of listing of at least HK\$200 million as required under Rule 8.09(2)
Contents	Extracts of the response of the Secretary to the Listing Committee, the Stock Exchange of Hong Kong Ltd

[Date]

[Name and Address of Sponsor]

Dear Sirs

Re: Application for new listing on the Main Board
by an applicant which is a GEM Board listed issuer
(the “Company” together with its subsidiary, the “Group”)

We refer to your advance booking form dated [** date * month * year*] made on behalf of the Company (the “**Application**”) and the hearing proof of the Company’s prospectus dated [** date * month * year*] (the “**Prospectus**”). Capitalized terms used herein shall have the same meanings as those defined in the Prospectus, unless otherwise stated.

At the Listing Committee meeting held on [** date * month * year*] (the “Listing Committee hearing date”), at which [*names of members purposely omitted*] had attended to consider the Application, the Listing Committee is of the view that the Group is not able to demonstrate to the satisfaction of the Listing Committee that it has complied with Rules 8.08(2) and 8.09(2) of the Listing Rules. We would like to take this opportunity to explain in detail the reasoning of the Listing Committee in reaching this conclusion.

Rule 8.09(2) of the Listing Rules

It is stated in Rule 8.09(2) of the Listing Rules that “*the expected market capitalization of a new applicant at the time of listing must be at least HK\$200 million*”.

The Listing Committee noted that based on the closing price of the Shares [*as at the date of the Listing Committee hearing*] of [*HK\$**] per Share, the market capitalization of the

Company is approximately *[an amount less than HK\$200 million]* , which does not meet the requirement under Rule 8.09(2). The Listing Committee noted the following arguments of the Sponsors to justify that the Company would be able to comply with Rule 8.09(2) at the time of listing (which was tentatively scheduled to be *[approximately 6 weeks after the date of the Listing Committee hearing]*):

- that the Directors believed that institutional investors preferred investing in shares listed on the Main Board. Thus, institutional investors might increase their interests in investing in the Shares after the enhancement of the Company's profile as a result of the listing on the Main Board; and
- that the Company estimated that its results for the first three quarters of the year were better than in the corresponding previous period. The Company was prepared to announce its third quarter results *[approximately 4 weeks after the date of the Listing Committee hearing]*. After that announcement, the Shares may reflect this positive growth of the Company.

However, despite the above, the Listing Committee noted that the Company's free float was approximately *[over 100 million]* Shares (being *[approximately 30%]* public float on *[* number of]* ordinary Shares in issue). Further, over the past twelve months, the average daily trading volume was between *[100,000 to 200,000]* Shares. As such, the Listing Committee characterized trading in the Shares as thin. In order to meet the minimum market capitalization requirement under Rule 8.09(2), the Company's share price should be at least *[115% of the closing price of the Shares as of the date of the Listing Committee hearing]*. The Company's share price had ranged from *[approximately 60% of the closing price of the Shares as of the date of the Listing Committee hearing]* to *[over 140% of the closing price of the Shares as of the date of the Listing Committee hearing]* during the last twelve months. On the basis of the past trading, the Listing Committee considered that the Company and the Sponsors had not demonstrated that the Company would be able to meet the requirement of Rule 8.09(2).

Rule 8.08(2) of the Listing Rules

It is stated in Rule 8.08(2) that “*at the time of listing there must be an adequate spread of holders of the securities to be listed. The number will depend on the size and nature of the issue, but in all cases ... there must be a minimum of 300 shareholders*”. It is also stated in Rule 8.08(3) that “*not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders*”.

The Listing Committee noted that the Company had approximately *[less than 350]* shareholders (i.e. more than the required minimum of 300) *[approximately 6 weeks before the date of Listing Committee hearing]*. However, this included *[over 200]* employees of the Company who had acquired their shares by exercising the share options that had been granted by the Company *[approximately 6 weeks before the date of the Listing Committee hearing]*. The Listing Committee commented that what the Company had done was a very artificial way of meeting the requirement for a minimum number of shareholders. The Listing Committee considered that the Company had not demonstrated that it complied with the spirit of the Listing Rules in relation to Rule 8.08(2).

Conclusion reached by the Listing Committee

On the basis of the Company's past trading on the Exchange, the Company had not demonstrated that it would be able to meet the minimum market capitalization requirement under Rule 8.09(2). The Company had also not demonstrated that it complied with the spirit of the Listing Rules in relation to Rule 8.08(2), dealing with the spread of shareholders. In light of these conclusions, the Listing Committee determined to reject the Application.

Please also note that, pursuant to Rule 2B.07(1) of the Listing Rules, the Company has the right to a further review of the Application by the Listing (Review) Committee.

[Portion of Letter Purposely Omitted]

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

[Signed]

Secretary to the Listing Committee