

**HKEX LISTING DECISION
HKEX-LD106-2017 (May 2017)**

[Streamlined and incorporated into the Guide for New Listing Applicants in January 2024]

Summary	
Parties	Company A to Company G – Main Board and GEM listing applicants whose applications were returned by the Exchange in 2016
Issue	To provide guidance on why the Exchange returned certain listing applications
Listing Rules	Main Board Rule 9.03(3) GEM Rules 12.09 and 12.14
Related Publications	HKEX-LD84-2014, HKEX-LD91-2015 and HKEX-LD101-2016
Decision	The Exchange returned the applications

PURPOSE

1. This Listing Decision in the Appendix sets out the reasons why the Exchange returned certain listing applications from 1 January to 31 December 2016. For the reasons listing applications were returned before this period, please refer to the listing decisions stated in “Related Publications” above.

APPLICABLE RULES, REGULATIONS AND PRINCIPLES

2. Main Board Rule 9.03(3) (GEM Rule 12.09(1)) requires an applicant to submit a listing application form, an Application Proof and all other relevant documents under Main Board Rule 9.10A(1) (GEM Rules 12.22 and 12.23), and the information in these documents must be substantially complete except in relation to information that by its nature can only be finalised and incorporated at a later date.
3. If the Exchange decides this information is not substantially complete, the Exchange will not continue to review any documents relating to the application. All documents, including the Form A1 (Form 5A for GEM cases) (except for the retention of a copy of these documents for the Exchange’s record) submitted to the Exchange will be returned to the sponsor (GEM Rule 12.09(2)).

Returned cases in 2016	
Company	Reasons for return
Company A (a Main Board Applicant)	<p>Company A operated an e-commerce business in the PRC through contractual arrangements.</p> <p>The application was returned because:</p> <ul style="list-style-type: none"> (i) the Company used contractual arrangements to control certain entities, although the Application Proof disclosed that Company A's e-commerce business was not subject to foreign ownership restrictions. However, it was subsequently disclosed that Company A's e-commerce business was subject to foreign ownership restrictions; (ii) the Company's contractual arrangements failed to follow the principles under Listing Decision HKEX-LD43-3. In particular, Company A should have excluded those subsidiaries which were not engaged in restricted business from the operating companies controlled through contractual arrangements prior to the submission of the Application Proof; and (iii) the Application Proof did not disclose certain material information on Company A's business model such as (a) the revenue model, (b) material terms of agreements with promoters of its online shops, suppliers and payment collection agents, and (c) basis to determine whether to source the Company's products from independent suppliers or internally from the Company.
Company B (a GEM Applicant)	<p>Company B was a consumer products company in the PRC. Approximately 80% of Company B's total revenue during the track record period was generated from sales to distributors.</p> <p>The application was returned because the description of Company B's business was materially inaccurate as evidenced by the significant changes in subsequent proofs. In the Application Proof, it stated that (i) most of Company B's distributors had entered into annual/ long-term distributorship agreements with Company B; and (ii) Company B had implemented measures to actively monitor the inventory levels of its distributors. It was subsequently disclosed that only around 1% of Company B's distributors (which accounted for only approximately 3% of Company's total revenue during the track record period) entered into such agreements and were subject to such measures.</p>
Company C (a GEM Applicant)	<p>Company C was an on-line marketing service provider in Hong Kong.</p> <p>The description of Company C's business model in the Application Proof did not provide investors with sufficient information to make an informed assessment of Company C's business. For example, it did not disclose:-</p> <ul style="list-style-type: none"> (i) the scope of services and specific works performed by Company C under each business segment;

Returned cases in 2016	
Company	Reasons for return
	<p>(ii) the basis of Company C’s claim that its big data system and marketing tool outperformed its peers;</p> <p>(iii) the material terms of the master agreements with its major suppliers;</p> <p>(iv) how Company C procured advertising space at a “lower bidding price”;</p> <p>(v) details of performance bonuses and reseller’s discounts received by Company C from its suppliers and those paid by Company C to its customers; and</p> <p>(vi) the different target customers, pricing policy, profitability, level of reliance on supplier discounts, and risk management challenges of the two types of services offered.</p> <p>In addition, where relevant information was given, it was scattered throughout the Application Proof making it challenging for investors to appreciate its importance.</p> <p>The overuse of jargon and acronyms also contributed to the difficulty of understanding its business model. It failed to explain key aspects of its business and industry in plain English, and/or use more detailed flowcharts and diagrams with narrative descriptions and illustrative examples to better explain the financial aspects of its material transactions. Taking into account all the factors discussed above, the case was returned.</p>
Company D (a GEM Applicant)	<p>Company D was a toy manufacturer in the PRC.</p> <p>The information submitted was not substantially complete because it did not include all required financial information in the Application Proof.</p> <p>According to the listing timetable, the track record period in the final prospectus was required to cover two financial years ended 31 December 2015 and a stub period of six months ended 30 June 2016. The financial information in the Application Proof covered the two financial years ended 31 December 2015 and a stub period of only four months ended 30 April 2016.</p> <p>Under Guidance Letter HKEX-GL6-09A, Company D may include less than the required financial information if the application was filed not later than 31 August 2016. However, Company D filed its listing application in September 2016 so it did not fall under this exemption.</p>
Company and	E Company E was a printing company based in Hong Kong and Company F was an environmental hygiene service provider in Hong Kong.

Returned cases in 2016	
Company	Reasons for return
Company F (GEM Applicants)	<p>The information submitted was not substantially complete because both applicants failed to include all required financial information in their respective Application Proof.</p> <p>According to the respective listing timetable, the track record period in the final prospectus was required to cover two financial years ended 31 December 2016. Company E only included financial information for two financial years ended 31 December 2015 and a stub period of seven months ended 31 July 2016 and Company F only included financial information for two financial years ended 31 December 2015 and a stub period of six months ended 30 June 2016.</p> <p>Under Guidance Letter HKEX-GL6-09A, each of Company E and Company F may include less than the required financial information if the application was filed within two months after the end of 2016 and the Application Proof included financial information for the financial year ended 2015 and a stub period of nine months ended 30 September 2016. However, both applicants filed their respective listing application before the end of 2016 and their respective Application Proof included financial information covering the financial year ended 2015 and a stub period of less than nine months ended 30 September 2016 and therefore did not fall under this exemption.</p>
Company G (a Main Board Applicant)	<p>Company G was a bead wire manufacturer in the PRC.</p> <p>Company G submitted a renewed application, after its previous application lapsed, without fully addressing the Exchange's comments on its compliance with basic eligibility requirements under the Main Board Rules. Therefore, it did not comply with our Guidance Letters HKEX-GL56-13 and HKEX-GL7-09 and its renewed application was returned.</p>