16 December 2019

Yorkshine Holdings Limited – Listing Review Committee

On 4 December 2019, the Listing Review Committee heard an application by Yorkshine Holdings Limited (the **Company**) for a review of the decision of the Listing Committee, set out in a letter dated 23 August 2019, cancelling the Company's listing on the Main Board.

Having carefully considered all the facts and evidence, and all the submissions (written and oral) presented by the Company and the Listing Department, the Listing Review Committee decided that the Company's listing should be cancelled under Rule 6.01A.

We set out below the Listing Review Committee's reasons for its decision. Please note that this necessarily represents only a summary of the Listing Review Committee's analysis, and does not purport to set out exhaustively the facts or address all of the arguments presented.

1. The Company has had two business segments: trading and distribution of iron ore, coal and steel products; and manufacturing, sale and distribution of electrolytic tinplate and related products for the metal packaging industry.

2. The Company's shares have been listed on the Main Board since December 2010, although trading has been suspended since 1 August 2017.

3. The trading suspension arose as the Company's auditors, Baker Tilly TFW LLP, required more time to complete the audit for the year ended 30 April 2017, after finding two sets of apparently conflicting sale and purchase agreements pertaining to the same underlying transactions relating to the trading business, but involving different parties. In August 2017, the Company appointed PricewaterhouseCoopers Consulting (Singapore) Pte Ltd (**PwC**) to conduct an independent review of this issue.

4. Certain conditions were imposed on the Company that had to be met to the satisfaction of the Listing Department before trading could resume. Amongst other things, these included requirements that the Company should:

   (a) address and take appropriate action on the audit issue and PwC's findings;

   (b) publish all outstanding financial results and address any audit qualifications;

   (c) demonstrate that the Company has in place adequate internal control systems;

   (d) demonstrate the directors meet the standard of competence under Rules 3.08 and 3.09; and

   (e) demonstrate that the Company has a sufficient level of operations or assets to warrant the continued listing of its securities under Rule 13.24.

5. The Company announced PwC's findings on 19 January 2018. Amongst other things, PwC concluded that there were uncertainties around the transactions under investigation, and there were issues relating to the Company's controls which exposed the Company to risk of trades being transacted by unauthorised persons.

6. The Group's audited financial information showed that the Group made a net loss in each of the years ending 30 April 2013 to 2019, save that in FY2018/19, there was a net profit as a result of a one-off disposal gain.

7. The Group ceased its trading business in FY2016/17, and had no revenue in FY2017/18. In FY2018/19, the Group had revenue of US$16.4 million from its tinplate business. The Group had total assets of US$52 million as at 30 April 2019, and net assets of US$12.4 million.

8. In July 2019, the Company submitted a resumption proposal, as the Company considered that it had fulfilled all the resumption conditions.

9. The Listing Department agreed that the Company appeared to have satisfactorily addressed the resumption conditions set out in paragraphs 4(a) to (c) above. Amongst other things, the persons involved in the transactions under investigation had been removed or had resigned, the Company had taken appropriate steps to remedy its internal control deficiencies (confirmed in an independent control review), the Company had suspended its trading business, the Company had published all outstanding results, and the qualified opinions on the annual results for the year ending 30 April 2019 did not give rise to material concern.

10. In relation to resumption condition (d), the Company proposed to restructure its board immediately before resumption of trading, under which all existing directors would resign, save for the controlling shareholder/chairman, who would be re-designated from executive director to non-executive director and have a limited scope of future participation in the Company's affairs. The Listing Department considered that the proposed restructuring satisfactorily addressed resumption condition (d).

11. However, the Listing Department considered that the Company did not satisfy resumption condition (e), as the Company had not demonstrated a sufficient level of operations or assets of sufficient value to warrant its continued listing under Rule 13.24.

Applicable Listing Rules and guidance

12. Rule 6.01 provides that, amongst other things, "where the Exchange considers it necessary for the protection of the investor or the maintenance of an orderly market, it may at any time direct a trading halt or suspend dealings in any securities or cancel the listing of any securities in such circumstances and subject to such conditions as it thinks fit". Prior to 1 October 2019, rule 6.01 said the Exchange may also do so where "the Exchange considers that the issuer does not have a sufficient level of operations or sufficient assets to warrant the continued listing of the issuer's securities (see rule 13.24)".

13. Prior to 1 October 2019, Rule 13.24 provided that: "An issuer shall carry out, directly or indirectly, a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Exchange to warrant the continued listing of the issuer's securities."[1]

14. The rules applicable to cancellation of listing were amended in 2018 and the current rules came into effect on 1 August 2018 (the **Effective Date**). Rule 6.01A(1) provides that "… the Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months."

15. Guidance Letter HKEX-GL95-18 (**GL95-18**) provides further guidance on long suspension and delisting. As noted in GL95-18, the objective of the amended delisting Rules is to keep the necessary trading suspension to the minimum, by facilitating timely delisting of issuers that no longer meet the

continuing listing criteria. This, in turn, provides certainty to the market on the delisting process. The delisting Rules are also aimed at incentivising suspended issuers to act promptly towards resumption and deterring issuers from committing material breaches of the Rules.

16. Various transitional provisions are set out in Rule 6.01A(2). In the case of the Company, the relevant transitional rule is Rule 6.01A(2)(b)(ii), which applies to issuers which are not subject to a decision to commence the procedures to cancel a listing and a notice period for delisting immediately before the Effective Date, and when trading in that issuer's securities has been continuously suspended for 12 months or more as at the Effective Date. Under that rule, the 18 month period referred to in rule 6.01A(1) commences 6 months before the Effective Date.

17. The practical effect of the above rules is that the Company's listing could be cancelled if it had not resumed trading by 31 July 2019.

18. Paragraph 12 of GL95-18 emphasises that, under the Rules, the Exchange would cancel the listing of a long suspended issuer upon the expiry of the remedial period (prescribed or specific) if the issuer has not remedied the issues causing the suspension and re-complied with the Rules.

19. Paragraph 19 of GL95-18 notes that the remedial period may only be extended in exceptional circumstances.

Listing Committee decision

20. In August 2019, the Listing Department recommended to the Listing Committee that the Company's listing be cancelled on the basis that the Company had failed to fulfil all the resumption conditions satisfactorily and resume trading by 31 July 2019.

21. The matter was considered by the Listing Committee on 22 August 2019. The Listing Committee decided to cancel the Company's listing under Rule 6.01A as the Company had failed to resume trading by 31 July 2019.

Rule 13.24

22. The key issue before the Listing Review Committee was whether or not the Company met the sufficiency of operations or assets requirements set out in Rule 13.24. As the trading business had ceased, this primarily involved consideration of the tinplate business. This section contains a summary of some of the main submissions presented by the Review Parties on this issue. Please note that this does not purport to set out exhaustively all of the arguments presented.

23. The Company submitted that it had invested a substantial amount of time, effort and money into the redevelopment of a plant in Taizhou, PRC. Funding for this was primarily by interest-free shareholder loan of over US$20 million. The Taizhou plant had restarted production in 2018. Current production capacity is estimated in the region of 100,000 tonnes per annum. When phase 1 of the renovated plant is fully operational, the plant is expected to have a production capacity of 150,000 tonnes per annum.

24. The Company submitted that, although the Taizhou plant was operating at a loss in the financial year ended 30 April 2019, this was due to the plant still being in a start-up phase, and the plant was expected to generate an operating profit in FY2019/20 (US$967,000) and FY2020/21 (US$3.79 million). The Taizhou plant had also operated at a loss prior to its redevelopment (e.g. FY2013/14 and FY 2014/15), but the Company submitted that this was not relevant to its current and future prospects, as the plant was outdated at that time and the then management (who were not associated

with the current management) lacked the required expertise.

25. The Taizhou plant was now working well, and had won awards. A new lamination machine was coming online in Q4 2019. Some 30,000 tonnes of tinplate had been produced and sold between June and September 2019. The Company submitted that a key competitor had recently gone bankrupt, which presented an opportunity for the Company to win customers and business. The price of tinplate might also rise as a result of this market development.

26. The Company submitted that its total assets at 30 April 2019 were close to US$52 million, of which about US$41 million comprised property, plant and equipment. Net assets at 31 July 2019 were US$16.4 million, with an effective higher NAV as the shareholder providing the loan for redevelopment of the Taizhou plant is willing to accept loan capitalisation.

27. The Company further submitted that its principal business is investment holding. In the long run, the Company will not solely rely on the tinplate business. Amongst other things, the Company will consider expanding vertically in the manufacture of metal products, and resuming the trading business when appropriate funding is available.

28. The Listing Department had concerns in relation to the tinplate business. Amongst other things, the Listing Department noted that it only had a short track record, and a relatively small scale of operation. The Listing Department considered that the tinplate business lacked a concrete business model and/or credible forecasts to support its viability or sustainability.

29. The Listing Department noted that the tinplate business had been loss-making, both before and after the redevelopment of the Taizhou plant, and was not yet profitable, and the loss-making position did not represent a temporary downturn of the business. The Company had not demonstrated how the business will be able to solicit sufficient customers and generate sufficient sales/revenues to improve performance substantially.

30. The Listing Department submitted that the sales volumes forecasted by the Company exceeded actual sales volumes, and noted that certain agreements which had been entered into to supply 69,000 tonnes of tinplate were still subject to negotiation on price and so uncertain. This called into question the Company's profit forecasts. In any event, the Company's forecasted gross profit margin of 4.8% to 6% was thin, and even this level had not been achieved in the period May to September 2019.

31. The Group's assets had not generated sufficient revenue or profits to ensure the Company operated a viable and sustainable business, and the Company had not demonstrated how its assets would enable it to substantially improve operations and financial performance. The Company's other proposed expansion plans were preliminary, generic and uncertain.

32. It was also noted in the hearing that the Singapore Exchange (SGX) had decided to delist the Company in July 2019 as the Company had not submitted a resumption proposal in Singapore.

33. In oral submissions, the Company accepted that it would likely find it difficult if it were to apply for listing today, but that there was confidence that the very significant investment in the Taizhou plant could and would allow a sustainable future business. The Company requested an extension of time until mid-2020, after the current year financial results had become available, in order to demonstrate its potential and resume trading. The Listing Department submitted that the assessment of the Company under Rule 13.24 should be a present test, not a future test.

Listing Review Committee's views

34. Having considered all of the submissions and evidence, the Listing Review Committee considered that the Company did not meet the requirements of Rule 13.24, as it did not appear to be carrying out a sufficient level of operations, or to have assets of sufficient value, to warrant the continued listing of the Company's securities.[2]

35. In reaching this view, the Listing Review Committee noted that substantial efforts and investment had been made into the Taizhou plant. However, the tinplate business had limited track record, has never been profitable, and remains small. Furthermore, it was not clear whether the business would or could become profitable. Amongst other things, the production and revenue in the period between May/June and September 2019 had been below the forecasted levels. Gross margin remained, and was only forecasted to be, very thin. The Company had not demonstrated that it had an effective plan to generate sales. For these reasons, the Listing Review Committee shared the concerns of the Listing Department regarding the substance, viability and sustainability of the Company's business.

36. The Listing Review Committee further considered that it was not appropriate to extend the remedial period to mid-2020. The Company had been suspended for over two years prior to the Listing Committee's decision. It was only able to offer limited further information regarding its financial performance between July and the date of the hearing (for example, there was no information especially on the level of sales or revenue relating to October or November) and, as noted above, the Listing Review Committee had concerns about what had been achieved to September 2019. Whilst it was possible that the Company's business could improve in the remainder of the current financial year, there was no clear evidence that it would do so. GL95-18 is clear that extensions should only be given in exceptional circumstances, and the Listing Review Committee did not think any such exceptional circumstances existed in this case.

Decision

37. The Listing Review Committee therefore decided to uphold the Listing Committee's decision that the Company's listing should be cancelled under Rule 6.01A.

Please note that decisions of the Listing Review Committee do not represent binding precedents, and do not constrain the discretion of or otherwise bind the Exchange or other committees (including without limitation the Listing Review Committee in respect of other matters).

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[1] Rule 13.24 was amended on 1 October 2019 to say that: "An issuer shall carry out, directly or indirectly, a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities." The relevant version of the rule for this matter was that in effect prior to 1 October 2019.

[2] The Listing Review Committee noted that the Company would also accordingly have failed to satisfy the requirements in Rule 13.24 applicable after 1 October 2019.