

Applicant	Background and Decision
<p data-bbox="164 327 336 461">Company A (GEM applicant) (2017)</p> <p data-bbox="164 501 304 667">Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p data-bbox="362 327 517 356"><i>Background</i></p> <ol data-bbox="362 396 1455 1115" style="list-style-type: none"> 1. Company A was a provider of vehicle services in Hong Kong. It applied for a spin-off listing on GEM by way of introduction. As there was no offering, Company A sought to rely on its forecast P/E ratio to demonstrate compliance with the then applicable minimum market capitalisation requirement (i.e. HK\$100 million) under GEM Rule 11.23(6). 2. Company A originally submitted a forecast adjusted P/E ratio (based on its 2016 estimated earnings excluding listing expenses) of over 45 times. When asked to provide the basis for the ratio, Company A revised the adjusted P/E ratios to over 15 times, which still met the required minimum market capitalisation. 3. The revised adjusted P/E ratio was determined based on historical P/E ratios of two companies not directly comparable with Company A and the determination involved various assumptions and judgement. One comparable company was loss-making at the relevant time and Company A estimated the P/E ratio of the comparable company based on the comparable company's valuation two years ago (when it was profitable) after adjusting for the percentage decrease in the Hang Seng Index thereafter. The other comparable company was listed on an overseas exchange and only one of its segments was similar to Company A's business. Furthermore, Company A's assessment did not account for the differences between the historical and forecast P/E ratios. <p data-bbox="362 1155 472 1184"><i>Decision</i></p> <ol data-bbox="362 1225 1455 1361" style="list-style-type: none"> 4. The listing application was rejected as Company A failed to satisfactorily demonstrate compliance with the eligibility requirement in view of the significant changes in the forecast adjusted P/E ratio and the determination of such ratio was highly subjective and discretionary.