

Applicant	Background and Decision
<p><b>Company A</b> (GEM applicant) (2015)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company A was engaged in a regulated business. It generated certain income from activities that were in breach of local regulations governing its business operation. Excluding the cash flow generated from this non-compliant income, Company A would fail to meet the minimum cash flow requirement under GEM Rule 11.12A(1).</li> <li>Company A's financial outlook raised concerns, considering: (i) its heavy indebtedness with minimal cash at bank and unutilised banking facilities where minimal cash and cash equivalents were available due to a cash flow mismatch between settlement of expenses and the lengthy billing cycle for its major customers; (ii) its significant trade receivables, with long and deteriorating receivable turnover days; (iii) the high customer concentration, which raised doubts as to its bargaining powers with its customers; and (iv) the uncertainty regarding its ability to obtain independent financing after using up the unutilised banking facilities and ceasing its reliance on its controlling shareholders to guarantee its borrowings after listing.</li> <li>Further, there was insufficient disclosure on the competitive landscape to enable investors to understand the prospects of the industry.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected due to concerns regarding Company A's business sustainability and inability to meet GEM Rule 11.12A(1), which cast doubt on whether Company A was able to continue its business on a going concern basis.</li> </ol>
<p><b>Company B</b> (GEM applicant) (2015)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company B was engaged in gaming-related business which required a licence from the competent authority. It heavily relied on one head operator for commissions based on spending of customers introduced by it at the head operator's venue. However, this reliance was not mutual, considering that (i) the annual licence renewal was contingent on the continuation of the cooperation agreement with the head operator, and (ii) the intense competition from Company B's industry peers. The competitive landscape raised significant concerns about Company B's sustainability, given its heavy dependence on a single operator for commissions.</li> <li>Company B also relied heavily on a few business partners to bring in customers whose credits were partly guaranteed by these business partners.</li> <li>In view that Company B earned interest income for providing loans to its customers (part of which were guaranteed by the business partners), there were concerns on whether, and Company B failed to demonstrate that, its credit risk control measures were sufficient in ascertaining the creditworthiness of its business partners and customers to mitigate the significant credit risks involved.</li> <li>Company B experienced a decline in its net profit margin during the track record period.</li> </ol>

Applicant	Background and Decision
	<p><i>Decision</i></p> <p>5. The listing application was rejected due to concerns on Company B's business sustainability.</p>
<p><b>Company C</b> (GEM applicant) (2015)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <p>1. Company C was engaged in property sub-leasing business. There were concerns on its business model considering:</p> <ul style="list-style-type: none"> <li>(i) Company C's track record results, which might have been distorted and would not accurately represent its future performance, due to two major reasons: (a) the owner of the properties leased by it had not obtained the relevant property ownership certificates; and (b) it failed to demonstrate its ability to secure a lease of similar size in the same area from a property owner with proper property ownership certificates at a comparable rent; and</li> <li>(ii) Company C's ability to terminate the master lease agreement with a property owner without any penalties during the track record period, which was unusual. There was no compelling evidence or market comparable data to substantiate that such practice was an industry norm.</li> </ul> <p>2. Company C's controlling shareholder was interested in property investment and development businesses which targeted types of tenants similar to that of Company C. Company C had failed to demonstrate effective measures in managing conflicts in sourcing tenants for both the properties owned by the controlling shareholder and those owned by it, especially considering the extreme competition<sup>1</sup> between them.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected due to concerns on Company C's business sustainability.</p>
<p><b>Company D</b> (GEM applicant) (2015)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <p>1. Company D was a hotel developer and owner. There were concerns on its business sustainability considering:</p> <ul style="list-style-type: none"> <li>(i) Company D's heavy reliance on government discretionary interest subsidies to maintain sufficient cash flow for meeting its debt payments;</li> <li>(ii) Company D's loss-making history which was expected to continue in the foreseeable future and would be further aggravated by its proposed business expansion plans; and</li> <li>(iii) The absence of a clear path to profitability for its properties, with an estimated a long break-even and payback period of over 15 years.</li> </ul>

<sup>1</sup> Competition between an applicant and its controlling shareholder was not a bar to listing. Nevertheless, the Exchange expected effective measures in place to manage conflict of interests, failing which might lead to concerns about suitability for listing.

Applicant	Background and Decision
	<p>2. Company D experienced a decline in operating performance and financial results due to travel restrictions in the area where it conducted its business. There were insufficient bases to support (i) the claim that Company D's market strategy and proposed expansion plan could help alleviate its deteriorating performance; and (ii) the forecast of upward trends in profitability.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected due to concerns on Company D's business sustainability.</p>
<p><b>Company E</b> (MB applicant) (2016)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company E was engaged in gaming-related business. It generated revenue from casino operators by introducing VIP players to designated VIP rooms at casino operators' venues. The VIP players were sourced and introduced by junket agents; and Company E paid these agents commissions accordingly.</p> <p>2. During the track record period, Company E's financial performance deteriorated, and this deterioration was unlikely to be short-term considering the industry outlook and intense competition among industry players.</p> <p>3. There were concerns over the completeness, accuracy and genuineness of the lump sum service fees paid to a connected person, which represented a significant portion of Company E's selling, general and administrative expenses during the track record period.</p> <p>4. Company E's track record results could not be considered indicative of its future performance due to material changes in its revenue model since the third quarter of the second year of the track record period. These changes specially related to the calculation basis for (i) the income received from casino operators; (ii) the commission payable to junket agents; and (iii) the charges payable to a connected person for the provision of human resources and administrative services after the track record period.</p> <p><i>Decision</i></p> <p>5. The listing application was rejected due to concerns on Company E's business sustainability.</p>
<p><b>Company F</b> (MB applicant) (2016)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company F was a property investment company. During the track record period, Company F invested in retail properties and had a number of investment properties. The business was operated by the controlling shareholder who was assisted by one staff member. In preparation for its listing, Company F employed 11 staff. There was no track record of Company F having operated as a business with its own personnel and established systems and processes. Company F did not have a track record of the current structure to provide comfort on the effectiveness of its internal controls, management and operational systems which investors could rely on to assess Company F.</p>

Applicant	Background and Decision
	<ol style="list-style-type: none"> <li data-bbox="368 248 1455 315">2. It also failed to demonstrate its ability to comply with the management continuity requirement during the track record period.</li> <li data-bbox="368 349 1455 450">3. Company F's reliance on the fair value gains from investment properties to meet the minimum profit requirement was extreme<sup>2</sup>. Over 80% of its net profit during the track record period was attributable to these fair value gains.</li> <li data-bbox="368 483 1455 663">4. There was a significant deterioration in Company F's financial performance after the track record period due to the poor market outlook; and increased finance costs and operating expenses. Such downward trend and heavy reliance on fair value gains (see paragraph 3 above) were expected to continue after listing based on Company F's profit forecast.</li> </ol> <p data-bbox="368 696 480 730"><i>Decision</i></p> <ol style="list-style-type: none"> <li data-bbox="368 763 1455 831">5. The listing application was rejected due to concerns on Company F's business sustainability.</li> </ol>
<p data-bbox="164 880 327 1014"><b>Company G</b> (GEM applicant) (2016)</p> <p data-bbox="164 1059 304 1238">Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p data-bbox="368 880 523 913"><i>Background</i></p> <ol style="list-style-type: none"> <li data-bbox="368 947 1455 1160">1. Company G was a printing service provider. Its net profit experienced a significant decline during the track record period. Following the track record period, Company G's largest customer, who had contributed significantly to Company G's revenue during the track record period, redirected its orders for a specific product to Company G's competitor. This shift resulted in a significant decrease in Company G's forecast sales.</li> <li data-bbox="368 1193 1455 1406">2. The profit forecast provided by Company G lacked basis. It remained uncertain (i) whether orders from new customers could compensate for the lost orders, as only a small part of the forecast revenue was made up of confirmed orders from new customers; and (ii) as to the basis of Company G's forecast of a significant growth in its revenue as compared with its industry peers, given the mature nature of the industry and Company G's market share.</li> <li data-bbox="368 1440 1455 1574">3. Company G, which was believed to have lost its largest customer due to price competition with its competitor, might face further pricing pressures in order to attract new customers and to retain its existing customers, which would lead to further deterioration of its future profitability.</li> <li data-bbox="368 1608 1455 1888">4. Company G's plan to use more than 90% of its net IPO proceeds to acquire new machines for its business was unsubstantiated, taking into account that (i) the utilisation rates of its existing major machines were only between 46% and 55% during the track record period; (ii) the additional depreciation charges and increased fixed costs (e.g. cost of hiring additional operation staff and maintenance costs) arising from the acquisition of new machines could have an adverse impact on Company G's future profitability; and (iii) there was no clear explanation as to its strategy for the need of the additional machines.</li> </ol> <p data-bbox="368 1921 480 1955"><i>Decision</i></p>

<sup>2</sup> Although reliance on fair value gains did not by itself render an applicant engaged in a property business not suitable for listing, the Exchange was of the view that, in this case, the applicant's reliance on the fair value gains was extreme.

Applicant	Background and Decision
	<p>5. The listing application was rejected due to concerns on Company G's business sustainability.</p>
<p><b>Company H and Company I</b> (MB applicants) (2017)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>1. Company H was an integrated excavation service provider. It sold unprocessed ore abroad during the track record period and planned to process the ore before selling it after listing, which was in response to regulatory changes that prohibited the export of unprocessed ore.</li> <li>2. Company I was a trading company. It outsourced the production for its sales activities during the track record period and planned to shift its business focus to both production and sale of a new product after listing.</li> <li>3. Each of the applicants failed to demonstrate the sustainability of their new business due to significant changes in their business model, cost structure, profitability and risk profile. Additionally, the management of each of the applicants lacked experience in operating the new business, which differed fundamentally from their existing operations.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>4. The listing applications were rejected as the business sustainability of both applicants (especially in respect of their new business) was extremely uncertain.</li> </ol>
<p><b>Company J</b> (GEM applicant) (2017)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>1. Company J was a distributor of two brands of consumer products. Both brands had small and declining market share, leading to deteriorating financial performance, particularly after the manufacturer terminated the supply of a major product of one brand. The plan to turnaround the business required a shift of business focus to its second brand, which had an even smaller market share and less market prominence, after the track record period.</li> <li>2. Company J relied on bank facility to maintain a positive cash balance and had high levels of gearing and net current liabilities.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>3. The listing application was rejected as Company J's business sustainability was extremely uncertain.</li> </ol>
<p><b>Company K</b> (GEM applicant) (2018)</p> <p>Rule reference: GEM Rule</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>1. Company K was a restaurant operator. Its profit margin had been consistently low and declining. Specifically:             <ol style="list-style-type: none"> <li>(i) During the track record period, half of Company K's restaurants operated at a loss, and a number of them eventually closed down;</li> </ol> </li> </ol>

Applicant	Background and Decision
<p>2.09; GEM Chapter 11</p>	<p>(ii) Company K's profit-making restaurants experienced a decline in operating margins, primarily attributable to slowing economy and rising rental and labour costs;</p> <p>(iii) Company K's net profit margins remained low, despite various measures implemented to cut costs and drive revenue growth; and</p> <p>(iv) Considering the potential increase in restaurant operating costs and headquarter overhead in line with inflation, Company K might not be able to sustain its business in the long term.</p> <p>2. All of Company K's restaurants operated on leased properties and rental expenses as a percentage of Company K's revenue had been increasing during the track record period. Company K's sensitivity to escalating rental costs had been evident, given that it recently closed down a full service restaurant due to the increase in rental expenses.</p> <p>3. Further, due to the significant capital expenditure required to establish restaurants and the potential reinstatement costs in case of non-renewal, restaurant operators generally had limited bargaining power during lease renewals.</p> <p>4. There was an imminent risk that Company K's leases might be renewed on unfavourable terms in view that (i) most of its restaurant lease agreements were for two to three years without renewal options; and (ii) as of the LPD, the majority of its restaurant lease agreements would expire within a year and Company K had not been able to successfully negotiate rent reductions upon lease renewal after the track record period.</p> <p><i>Decision</i></p> <p>5. The listing application was rejected as Company K's business sustainability was extremely uncertain.</p>
<p><b>Company L</b> (GEM applicant) (2018)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <p>1. Company L operated a printing business. The substantial expansion of its facilities and human resources (which could have been funded with its internal sources) was unsubstantiated and not commensurate with its historical and future business strategies.</p> <p>2. Company L's controlling and substantial shareholders had previously established, listed and disposed of a printing business. In particular, they sold their interests shortly after their lock-up expired. This raised concern on whether they would be committed to nurturing Company L in the long run.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company L failed to demonstrate its suitability for listing.</p>

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<p><b>Company M</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>1. Company M leased and operated a stand-alone high-end shopping centre. It derived the majority of its income from (i) sub-leasing retail units in the shopping centre; and (ii) providing property management services to tenants. In the last year of the track record period, Company M had also started offering consultancy services to property developers.</li> <li>2. During the track record period, there had been a significant deterioration in Company M's performance. Company M's attempts to turnaround performance from its main businesses were ineffective, due to the relatively inferior location of its shopping centre and potential increased competition from newer shopping centres.</li> <li>3. The relevant revenue contribution from Company M's consultancy business was relatively small, uncertain and highly volatile due to its short operating history and project-based nature, despite attempts to diversify its revenue streams.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>4. The listing application was rejected taking into account Company M's deteriorating financial performance during the track record period, and there was insufficient basis to support that the situation would improve.</li> </ol>
<p><b>Company N</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>1. Company N operated retail outlets of multi-brand maternity, baby and child-care products. Its planned use of proceeds was to fund local expansion plans, pursue strategic acquisitions and upgrade existing outlets.</li> <li>2. Company N failed to substantiate its need to significantly expand its retail network and pursue acquisitions, considering (i) the declining market demand and increasing competition from online retailers; (ii) its deteriorating revenue and profit during the track record period; and (iii) its ability to fund the expansion through its substantial cash and/or banking facilities.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>3. The listing application was rejected because Company N failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company O</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>1. Company O supplied electronic car parking systems. It failed to substantiate its proposed use of proceeds and the listing application lapsed.</li> <li>2. In the renewed listing application, Company O amended the use of proceeds to include purchasing property as part of its expansion. In response to the Exchange's comments, Company O decided to rent property instead and amended its use of proceeds several times thereafter.</li> </ol>

Applicant	Background and Decision
	<p><i>Decision</i></p> <ol style="list-style-type: none"> <li>Company O failed to substantiate the veracity of its expansion strategy and the rationale for its listing, considering the drastic changes in the proposed use of proceeds during the vetting process. As such, Company O failed to demonstrate its suitability for listing and its listing application was rejected.</li> </ol>
<p><b>Company P</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company P provided laundry and linen management services to customers.</li> <li>During the track record period, Company P recorded limited growth in revenue and profit and was unable to demonstrate its ability to grow at a level commensurate with that of the industry. In addition, it was unable to address questions around whether there would be an adequate market for its securities.</li> <li>Company P failed to justify the basis of its significantly high forecast price-to-earnings ratio.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company P failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company Q</b> (GEM applicant) (2019)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company Q owned and operated one hotel. Its proposed listing was by way of a spin-off from its parent. It provided only boilerplate reasons for its listing, including financing flexibility for any future acquisition or refurbishment.</li> <li>During the track record period, Company Q had sufficient operating cash flows, substantial cash and bank balances and unutilised banking facilities.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company Q failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company R</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company R manufactured and sold steel products for construction projects and provided related construction and ancillary services. It planned to use the listing proceeds to acquire a parcel of land for its production facilities.</li> <li>During the track record period, Company R's financial performance deteriorated and it had excess production capacity. Yet its use of proceeds was to fund expansion, which was not supported by increased demand.</li> <li>Company R's valuation against its peers was questionable and it had substantial cash and/or banking facilities available to fund its expansion plan.</li> </ol>



Applicant	Background and Decision
	<p><i>Decision</i></p> <p>4. The listing application was rejected because Company R failed to demonstrate its suitability for listing.</p>
<p><b>Company S</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company S was a subcontractor for formwork erection works and ancillary services. It planned to use the listing proceeds to acquire new commercial premises and equipment.</li> <li>There was no clear competitive advantage to owning new premises. Specifically, Company S claimed that owning new premises would improve corporate image but it was unconvincing. Other objectives of the plan (e.g. capturing market demand and enhancing corporate governance) could be achieved without listing. Further, net savings from owning its premises and certain equipment were not substantiated as Company S did not take into account relevant depreciation charges.</li> </ol> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company S failed to demonstrate its suitability for listing.</p>
<p><b>Company T</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company T sold building and home furnishing products. It planned to use a substantial portion of the proceeds to diversify into new products and open new retail stores.</li> <li>Company T failed to substantiate its expansion plan considering (i) the uncertainty as to the amount of working capital required for the new products; and (ii) the decreasing number of retail stores during the track record period and its adoption of a distributorship model, which allowed it to expand in regions without incurring significant costs to self-operate physical stores.</li> <li>Further, its proposed valuation (higher than that of its peers) was unsubstantiated in view of (i) its flat historical and forecast profit growth; and (ii) the decrease in average revenue generated from each store during the track record period.</li> </ol> <p><i>Decision</i></p> <p>4. The listing application was rejected because Company T failed to demonstrate its suitability for listing.</p>
<p><b>Company U</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company U provided plumbing and drainage services. It proposed to acquire a large parcel of land as part of its expansion.</li> <li>Company U had previously provided its services on leased property and owning land for a warehouse was not commensurate with its past business strategies. It failed to demonstrate that its expansion plan would result in additional revenue and</li> </ol>

Applicant	Background and Decision
2.06; MB Chapter 8	<p>capture additional market share. Further, it could not explain the need for a large parcel of land, as it only had plans to use approximately half of it.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company U failed to demonstrate its suitability for listing.</p>
<p><b>Company V</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company V provided electrical and mechanical engineering services. It proposed to use the listing proceeds primarily for expanding its workforce and acquiring premises for a warehouse and workshop.</p> <p>2. Company V failed to substantiate the business needs for expansion, considering (i) the industry outlook and its project backlog; (ii) that the reasons for the expansion were unclear; and (iii) that it had been able to grow the business historically without providing additional services that required a workshop.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company V failed to demonstrate its suitability for listing.</p>
<p><b>Company W</b> (GEM applicant) (2019)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <p>1. Company W was a locally based property agency that marketed overseas properties. It proposed to use the listing proceeds to fund its overseas expansion.</p> <p>2. Company W had no prior experience of overseas operation and did not provide any basis for determining (i) its ability to overcome the entry barriers; and (ii) how the assumptions and breakeven analysis had been achieved.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company W failed to demonstrate its suitability for listing.</p>

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<p><b>Company X</b> (MB applicant) (2019)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company X provided financial advisory and taxation solution services. During the track record period, Company X relied on internally generated funds to finance operations, with no bank borrowings for the three years prior to its listing application. It planned to use the listing proceeds to (i) acquire commercial premises in other target markets to establish a presence; (ii) promote its services by producing videos; and (iii) establish a “knowledge hub” nationwide to promote its services.</li> <li>Given that Company X had historically been able to develop a customer base in the target markets without representative offices and consistently generated positive operating cash flows throughout the track record period, it could not substantiate its rationale to acquire property and its funding needs.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company X failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company Y</b> (GEM applicant) (2020)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company Y sold lighting products and provided lighting support and installation services for building construction and building renovation projects. It proposed to allocate the listing proceeds to acquire a key component supplier, acquire an additional production plant, and hire additional staff.</li> <li>However, Company Y’s proposed expansion was not substantiated: <ol style="list-style-type: none"> <li>The supplier was only able to produce key components for one type of products sold by Company Y, and the revenue contribution from that product was relatively low (10% to 20% during the track record period);</li> <li>The expected annual cost savings from the additional plant were marginal (less than 1% of Company Y’s forecast net profit (excluding listing expenses) for the forthcoming financial year); and</li> <li>The proposed hiring plan (which would almost double the team size) was unsubstantiated based on the expected industry growth.</li> </ol> </li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company Y failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company Z</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company Z was a motor vehicle dealer. It proposed to use the listing proceeds primarily to replace its current showroom with a newly acquired one (which would double the size). However, it failed to demonstrate sufficient demand to support its plan in light of the 5.9% decline in the automotive retail industry from 2018 to 2022.</li> </ol>

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2.06; MB Chapter 8	<p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company Z failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company AA</b> (GEM applicant) (2020)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company AA provided commercial and industrial kitchen equipment solutions. It proposed to use a significant portion of the listing proceeds to pay the listing expenses and allocate 90% of the remaining proceeds (excluding listing expenses) to establish a new manufacturing facility for a product.</li> <li>As sales of the particular product had contributed less than 5% of revenue during the track record period, Company AA did not adequately explain why it was pursuing an increase in production for such product. In addition, that product had a small market and low forecast industry growth.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company AA failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company AB</b> (GEM applicant) (2020)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company AB operated three restaurants. It planned to use a substantial portion of the listing proceeds to open two more restaurants.</li> <li>However, Company AB had only opened three restaurants during its long operating history of 12 years. It proposed to expand aggressively by opening two restaurants despite the fact that its overall business performance from restaurant operations had remained relatively flat.</li> <li>Its expected valuation was questionable considering that (i) Company AB recorded minimal growth from its restaurant operations during the track record period while its comparables were significantly larger in terms of operating scale and revenue; and (ii) its consultancy income, which was taken into account in arriving at the valuation, was non-recurring.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company AB failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company AC</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company AC (i) manufactured and sold cold-rolled steel bars and steel wire products; (ii) processed and sold hot-rolled steel bars; and (iii) traded building materials and accessories.</li> <li>Company AC planned to establish new production facilities for steel bars and wires despite its declining revenue growth (from 27.5% in 2018 to 5% in 2019). Further,</li> </ol>

Applicant	Background and Decision
<p>2.06; MB Chapter 8</p>	<p>its projection that demand for steel bars and wires would increase was inconsistent with the sluggish industry outlook.</p> <p>3. Company AC's valuation was not substantiated in view of (i) its significant deterioration in its profit forecast; and (ii) its significantly higher (80%) price-to-earnings ratio than that of its industry peers.</p> <p><i>Decision</i></p> <p>4. The listing application was rejected because Company AC failed to demonstrate its suitability for listing.</p>
<p><b>Company AD</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company AD supplied optical components. Its proposed use of proceeds was to purchase additional machinery, recruit additional staff and acquire manufacturing suppliers.</p> <p>2. Company AD failed to substantiate its expansion plan:</p> <p>(i) Its argument to reduce supplier concentration risk by acquisition was inconsistent with its disposal of the entire interest in a major supplier during the track record period, and it failed to explain such change in strategy;</p> <p>(ii) Its inability to change suppliers without customers' prior approval;</p> <p>(iii) Company AD had made minimal additions to plant and machinery during the track record period and stated that that was due to a lack of financial resources. However, it was evident that Company AD could consistently generate operating cash flows during the track record period, and it would only have taken six months to generate sufficient funding for such plan; and</p> <p>(iv) Its failure to explain the business need for the planned 80% increase in workforce, as the work of devising new testing plans and equipment calibrations, once established, would not require substantial ongoing effort.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AD failed to demonstrate its suitability for listing.</p>
<p><b>Company AE</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company AE was a subcontractor for electrical and mechanical engineering services for building service systems. It planned to use the listing proceeds to procure systems for direct supply to its customers and enhance its internal capabilities through equipment acquisition and hiring additional staff.</p> <p>2. The expansion plan was not supported by sufficient demand considering that (i) it did not have a strong contract backlog and there was a downward trend in the value of new contracts obtained during the track record period; and (ii) it failed to</p>

Applicant	Background and Decision
	<p>substantiate the projected cost savings from procuring the systems (compared to its previous practice to engage subcontractors to supply the same).</p> <p>3. Company AE's valuation was unsubstantiated, as its profit forecast projected (i) a decline in adjusted net profit; and (ii) a price-to-earnings ratio which was higher than that of its peers.</p> <p><i>Decision</i></p> <p>4. The listing application was rejected because Company AE failed demonstrate its suitability for listing.</p>
<p><b>Company AF</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company AF formulated, developed and supplied polymer materials used in the manufacturing of specialty cables. It planned to use the listing proceeds to pursue a strategic investment in an upstream compounder and establish an in-house product development centre.</p> <p>2. Company AF failed to substantiate its expansion plan considering its (i) stable supply of polymer components and long-term relationship with upstream compounders; (ii) low sales volume during the track record period (less than 200 tonnes) relative to the expanded capacity from the proposed acquisition (6,000 tonnes), and the sales volume was expected to further decline in the forecast period; and (iii) ability to operate for 18 years without owning an in-house development centre and failure to substantiate the material benefits of having one.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AF failed to demonstrate its suitability for listing.</p>
<p><b>Company AG</b> (GEM applicant) (2020)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <p>1. Company AG provided container depot management services and container maintenance services.</p> <p>2. Company AG proposed to use the listing proceeds to replace machinery, recruit additional staff and establish a new depot, which would increase the total capacity of its existing depot in that city by 100%. It failed to demonstrate that there would be sufficient demand for the new depot, and it was able to fund its expansion plans through deployment of its then available cash or bank borrowings.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AG failed to demonstrate its suitability for listing.</p>
<p><b>Company AH</b> (MB applicant) (2020)</p>	<p><i>Background</i></p> <p>1. Company AH rented and sold construction equipment. It planned to use 22% of the listing proceeds to construct integrated premises.</p>

Applicant	Background and Decision
<p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p>2. Company AH failed to justify its business needs for the integrated premises considering (i) the declining revenue from the relevant business; (ii) the scale of the new premises (expected to be 70% larger than the existing premises), even though it only planned to expand its rental fleet by 12% to 13%; and (iii) that the depreciation and amortisation resulting from the integrated premises would be higher than its existing rental expenses.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AH failed to demonstrate its suitability for listing.</p>
<p><b>Company AI</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company AI was a main contractor focusing on public civil engineering projects. It planned to use the listing proceeds to expand its operations through acquisition of new machinery and equipment, additional hiring and payment for performance bonds.</p> <p>2. The expansion plan was not supported by market demand considering the adverse trends observed throughout the track record period, including the decreases in (i) revenue (at a CAGR of less than 3%) with relatively stable gross profit margin; (ii) average project size of contracts secured; and (iii) backlog (by around 40%) with no new projects awarded since the end of the latest financial year.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AI failed to demonstrate its suitability for listing.</p>
<p><b>Company AJ</b> (GEM applicant) (2020)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <p>1. Company AJ supplied fixtures and furniture, and decoration materials. It planned to use the listing proceeds to establish a showroom, expand overseas, and pay the upfront costs for certain projects.</p> <p>2. The expansion plan was not justified considering (i) Company AJ's increase in sales without the new showroom during the track record period and failure to demonstrate the benefits of having a showroom; (ii) that the proposed overseas expansion plan was not supported by any market data or study; and (iii) its ability to consistently generate cash flows and failure to explain why it required funding for payment of upfront costs for projects that had already commenced.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AJ failed to demonstrate its suitability for listing.</p>

Applicant	Background and Decision
<p><b>Company AK</b> (GEM applicant) (2020)</p> <p>Rule reference: GEM Rule 2.09; GEM Chapter 11</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company AK sold and leased out real estate and planned to use the listing proceeds to expand its real estate portfolio.</li> <li>As real estate investment was capital intensive, Company AK asserted that the listing would significantly enhance its capital base and financial position. However, given that the listing proceeds represented only 4% increase of the book value of Company AK's property portfolio, Company AK's claim that the listing would substantially enhance its capital base and financial position was unsubstantiated.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company AK failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company AL</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company AL provided property management services. It planned to use 41% of the listing proceeds to renovate certain existing car parks (the "<b>Renovation</b>").</li> <li>It did not appear that the Renovation would materially benefit Company AL by increasing its chances of renewing its concession agreements/applying for parking tariff increments or its overall competitiveness, considering that (i) the relevant concession agreements did not require Company AL to undertake the Renovation and none of the tenders it had won during the track record period required any Renovation; and (ii) Company AL was able to increase parking tariffs without the Renovation.</li> </ol> <p><i>Decision</i></p> <ol style="list-style-type: none"> <li>The listing application was rejected because Company AL failed to demonstrate its suitability for listing.</li> </ol>
<p><b>Company AM</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <ol style="list-style-type: none"> <li>Company AM was a contractor providing (i) fitting-out services; and (ii) alteration and addition works to existing buildings. It proposed to use 60% of the listing proceeds to acquire a mechanical and electrical ("<b>M&amp;E</b>") works contractor (the "<b>Strategic Acquisition</b>"), and additional machinery and equipment.</li> <li>The Strategic Acquisition involved a change in business model and strategy from Company AM's previous role as a project manager to taking up the role of an M&amp;E contractor – a role that was labour intensive, and which was not Company AM's expertise. Company AM could not demonstrate how the benefits of the Strategic Acquisition outweighed the costs of outsourcing or internally developing a stand-alone M&amp;E practice.</li> <li>In addition, Company AM did not substantiate the need to acquire machinery and equipment, as utilisation rates of the same type of machinery it already owned were low and it historically subcontracted work which required such machinery/equipment and required its subcontractors to provide them.</li> </ol>



Applicant	Background and Decision
	<p><i>Decision</i></p> <p>4. The listing application was rejected because Company AM failed to demonstrate its suitability for listing.</p>
<p><b>Company AN</b> (MB applicant) (2020)</p> <p>Rule reference: MB Rule 2.06; MB Chapter 8</p>	<p><i>Background</i></p> <p>1. Company AN (i) provided pavement supply and lay services, largely for infrastructure projects; and (ii) sold asphalt premix products. It planned to use 25% of the listing proceeds to invest in a new asphalt plant and to purchase new machinery and equipment, and 65% of the listing proceeds to repay bank loans.</p> <p>2. There was uncertainty over Company AN's business prospects (and its ability to secure projects), considering:</p> <p>(i) Its short operating history which commenced shortly before the track record period. A substantial portion of revenue was derived from one large-scale non-recurring project, which was approaching completion;</p> <p>(ii) Its inability to secure other contracts of similar size after the track record period. Due to slowdown in the industry, there were fewer projects tendered and continued decrease in value of new projects secured; and</p> <p>(iii) That it did not expect its revenue and profit to grow in the near future due to the limited visibility in its project pipeline.</p> <p><i>Decision</i></p> <p>3. The listing application was rejected because Company AN failed to demonstrate its suitability for listing.</p>
<p><b>Company AO</b> (MB applicant) (2022)</p> <p>Rule reference: MB Rule 8.04</p>	<p><i>Background</i></p> <p>1. Company AO owned and operated five hospitals focusing on providing basic healthcare services to residents in local communities. Company AO had submitted its listing application with the corresponding track record period (the "<b>Original Track Record Period</b>"). In response to the Exchange's concerns, Company AO subsequently updated its listing application (the "<b>Renewed Listing Application</b>") and the corresponding track record period with an additional 12 months of financial information (the "<b>Renewed Track Record Period</b>").</p> <p>2. During the Original Track Record Period, Company AO generated most of its revenue from its outpatient clinic services (e.g. clinical treatments or day surgery), and inpatient hospital services (together, the "<b>Core Businesses</b>"), representing almost 80% of its revenue. The remaining revenue was mainly generated from its sales of pharmaceuticals. Its general physical examination services had only contributed minimal revenue during the Original Track Record Period. The business and financial performance of the Core Businesses had been deteriorating significantly (which the Exchange had serious concern over its business sustainability) mainly for the following reasons:</p>

Applicant	Background and Decision
	<p>(i) Two of Company AO's hospitals were found to be in breach of certain regulations imposed by the local hospital authorities (the "<b>Breaches</b>") for admitting some inpatients and mandating unnecessary inpatient services and treatments which involved higher fees. To prevent future Breaches (which might revoke Company AO's hospitals as designated medical institutions for social reimbursement purposes), Company AO had tightened its inpatient admission standards for all its hospitals. Since then, Company AO had recorded a significant drop in the utilisation rate of beds in operation, the number of inpatient visits and relevant revenue from inpatient hospital services.</p> <p>(ii) In view of the land title issues/defects at the original hospital site, Company AO had to scale down its operation at one of its hospitals (which contributed over 25% of its revenue), and planned to relocate to a new site, which was more distant from the original site and with only half of the total gross floor area and total number of beds (the "<b>Relocation</b>"). The operation of such hospital (the "<b>Relocated Hospital</b>") had been scaling down since the stub period of the Original Track Record Period. In addition, the remaining four hospitals were also located on leased properties with land title issues/defects or expiring term. The operations of these four remaining hospitals might also be exposed to potential material adverse impact arising from relocation; and</p> <p>(iii) The performance of the Core Businesses was further adversely affected since the outbreak of COVID-19 pandemic (the "<b>Outbreak</b>") as people were reluctant to visit hospitals amid the Outbreak.</p> <p>3. The following were noted in the Renewed Listing Application (which covered the Renewed Track Record Period):</p> <p>(i) In an attempt to address the Exchange's concerns, Company AO submitted that its business had improved as a result of an increase in revenue from general physical examination services and the COVID-19 nucleic acid tests, each of which contributed around 10% (together around 20%) of its revenue in the last year and the stub period of the Renewed Track Record Period;</p> <p>(ii) However, the business and financial performance of the Core Businesses continued to deteriorate. In particular, the Relocation of the Relocated Hospital lasted for almost half a year and since its resumption, it only managed to achieve around one-third of its level of revenue prior to the scale-down of the operation. In addition, two of Company AO's hospitals (which contributed more than 40% of its total revenue) were located on properties with leases that had expired or would soon expire. Company AO had not provided any concrete renewal plans and the operations of these two hospitals were subject to imminent relocation risks;</p> <p>(iii) According to Company AO's forecast, it expected that the revenue from the Core Businesses would further decrease by around 10% notwithstanding the Outbreak had subsided, and that the revenue from the Relocated Hospital would still decrease by half as compared to that prior to the scale-down of the operation. In contrast, Company AO forecasted that the general physical examination services and the COVID-19 nucleic acid tests would further expand and contribute, in aggregate, nearly 30% of its total forecast revenue in the upcoming financial year. However, Company AO did not provide any basis in support of such growth estimate (e.g. no legally binding agreements</p>

Applicant	Background and Decision
	<p>substantiating the anticipated significant increase in general physical examination services); and</p> <p>(iv) In addition, Company AO planned to use a substantial portion of the listing proceeds for (a) upgrading equipment and hospital facilities aiming at providing more advanced diagnosis services, which it believed could increase the number of relatively more complex surgeries that generally had a higher gross profit margin; and (b) merger and acquisition of smaller hospitals located in areas where healthcare resources were scarce and demand for comprehensive and quality healthcare services was unmet, but no memorandum of understanding or agreement had been reached.</p> <p>4. Company AO experienced prolonged deterioration in financial performance of the Core Businesses. Specifically:</p> <p>(i) The business and financial performance of Company AO's Core Businesses had been deteriorating significantly throughout the Original Track Record Period and the Renewed Track Record Period due to various adverse circumstances including the Breaches and the Relocation;</p> <p>(ii) Having considered the fact that the Relocated Hospital had sustained a material business decline as a result of the Relocation, the imminent risk of possible relocation faced by Company AO's two other major hospitals (which contributed a significant portion of its revenue) and its lack of concrete plans in renewing the leases or securing other appropriate hospital sites had aggravated the concern that this would materially adversely affect Company AO's operation, and in turn its business sustainability; and</p> <p>(iii) Company AO had no specific strategies or plans on improving the Core Businesses. Based on its own forecast, it did not anticipate a significant rebound in the Core Businesses during the forecast period recovering to the revenue and profitability level prior to (a) the tightening of the standards of inpatient admission of all hospitals as a result of the Breaches; and (b) the Relocation. The sponsor had also failed to provide any information to substantiate the sustainability of such businesses.</p> <p>5. Company AO claimed that its business had improved in the last year of the Renewed Track Record Period and would continue to experience significant growth as a result of the increased revenue and profit from general physical examination services and COVID-19 nucleic acid tests. However, the provision of general physical examination services was not part of Company AO's Core Businesses. Instead, it was incidental to other core services and historically generated insignificant revenue. In the last year of the Renewed Track Record Period, general physical examination services accounted for only around 10% of Company AO's revenue. Additionally, there was no concrete basis to support the projected three-fold increase in revenue during the forecast period. For COVID-19 nucleic acid tests, the revenue was temporary and might not be sustainable in the long term, as the demand for such tests varied with the development of the Outbreak.</p> <p>6. Company AO failed to demonstrate how its expansion plan and proposed use of proceeds could improve its business and financial performance, taking into account:</p>

Applicant	Background and Decision
	<p>(i) There was insufficient patient demand to justify upgrading equipment and facilities for advanced diagnosis services, considering Company AO's declining historical financial performance of its inpatient hospital services and outpatient clinic services, low bed utilisation rate and number of patient visits and there had been no sign of recovery. The reasons for such upgrade were unclear, as Company AO's hospitals primarily provided less complex treatments and focused on patients in local communities who preferred more affordable healthcare services; and</p> <p>(ii) Company AO had not clearly identified the criteria and the availability of the targets for merger and acquisition. No memorandum of understanding or agreement had been reached. It remained questionable whether Company AO could materialise its expansion plan.</p> <p><i>Decision</i></p> <p>7. The listing application was rejected as Company AO and the sponsor failed to satisfactorily address the Exchange's concerns on business sustainability and the proposed use of proceeds.</p>

See also Companies B and G under **Annex A.1** for listing decisions on trading record and financial eligibility.