

HKEx REJECTION LETTER
Cite as HKEx-RL19-07 (February 2007)

Summary	
Listing Rule	Listing Rule 8.04
Reason for rejection and the subsequent disposal of the case on review	The Listing Committee rejected the listing application of the Company for the reason that the Group should not be considered suitable for listing under Listing Rule 8.04 in light of that the change in the nature of the Company's revenue generating activities going forward was so fundamental as to affect its suitability for listing and was not a matter which could be dealt with solely by disclosure.
Contents	Extracts of the decision letter of the Secretary to the Listing Committee

[Date]

[Name and Address of Sponsor]

Dear Sirs

Re: Application for new listing of a Main Board listing applicant
(the "Company" together with its subsidiary, the "Group")

We refer to your application Form A1 dated [**day*month*year*] made on behalf of the Company (the "Application") and the hearing proof of the Company's prospectus dated [**day*month*year*] (the "Prospectus"). Capitalised terms used herein shall have the same meanings as defined in the Prospectus, unless the context otherwise requires.

At the Listing Committee meeting held on [**day*month*year*], [*names of members purposely omitted*] attended to consider the Application. Having considered all relevant facts and circumstances in totality, including among other things, the expiry of the Subsidy Programmes, the significant decline in the Group's forecast profit for [*the financial year immediately after the Track Record Period*] and the new engagement [*through acquisition*], which together give rise to doubts on the Group's prospects going forward, the Listing Committee resolved that the Group is not suitable for listing as required by Listing Rule 8.04. Accordingly, the Company's listing application is rejected. The analysis and conclusion are set out below.

A. Relevant Facts

Expiry of Subsidy Programmes

1. During the Track Record Period (comprising [*Year 1, Year 2 and Year 3*]), the Group has been awarded contracts to supply and install [*Product X*] under certain government Subsidy Programmes. These Subsidy Programmes all expired [*immediately after submission of listing application*].
2. [*Approximately 35% of the Group's revenue for each of the three years during the Track Record Period and for the five months after Year 3*] was attributable to the sales and installation of [*Products X*] in connection with the Subsidy Programmes.
3. Based on the Sponsor's submission, the Group's forecast profit [*for the year immediately after Year 3*] is expected to be [*a decline of approximately 40% as compared to that of Year 3*].

Product Y

4. [*Immediately after Year 3*], the Group entered into a sale and purchase agreement to acquire 42.5% interest in [*Entity X*]. [*Entity Y*], a subsidiary of [*Entity X*], was granted an exclusive right of daily operations of the Plant to supply processed [*Product Y*] to the certain surrounding areas of the Plant for a period of 50 years starting from [*the end of Year 2*]. The Plant is currently under construction and is expected to commence operation around [*one year after submission of listing application*].
5. The acquisition of the interests in [*Entity X*] was approved by the shareholders of the Company at an extraordinary general meeting [*2 months after the Track Record Period*].
6. The net loss of [*Entity X*] Group [*for Year 2, Year 3 and the six months after Year 3*] represented approximately less than 10% of the Group's profit].

B. Applicable Listing Rules

7. Listing Rule 8.04 states that “[*B*]oth the issuer and its business must, in the opinion of the Exchange, be suitable for listing”.

C. The Issue

8. Given the expiry of the Subsidy Programmes, the significant decline in the Group's forecast profit and the new engagement in the [*Product Y*] business through acquisition, the Listing Committee has reviewed whether the state of affairs of the Group including the change in revenue generating activities and the possible decline in the Company's future financial performance would render the Company unsuitable for listing on the Main Board at this time.

D. The Analysis

9. The Listing Committee noted that the Subsidy Programmes contributed to a significant portion of the Group's revenue and net profit during the Track Record Period. The Group met the track record profit requirement on the basis of a business that was highly dependent on the existence of the Subsidy Programmes which had expired and would not continue after listing. The forecast [40%] decline in profitability was indicative of the Company's uncertain prospects going forward.
10. The Listing Committee also noted that the Plant [*to supply Product Y*] is currently under construction and is expected to commence operation around [*one year after submission of listing application*]. As such, it is only a "start up" business with untested ability to generate revenue going forward.
11. By reason of the aforesaid, the Listing Committee did not consider that the track record results of the Company were indicative of the Company's business going forward. The Listing Committee determined that the change in the nature of the Company's revenue generating activities going forward was so fundamental as to affect its suitability for listing and was not a matter which could be dealt with solely by disclosure.

E. The Conclusion

12. Having considered all relevant facts and circumstances in totality, and on the basis of the rationale as set out in Section D above, the Listing Committee resolved that the Group is not suitable for listing as required by Listing Rule 8.04. Accordingly, the Company's listing application is rejected.

Pursuant to Rule 2B.07(1) of the Listing Rules, the Company has the right to have this decision reviewed 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