

August 2019

### Listing Decision 121-2019: Six New Sins?

1. In addition to meeting the listing criteria as stipulated under Chapter 8 of the Listing Rules<sup>1</sup> (Chapter 11 for GEM Listing Rules<sup>2</sup>), to ensure the applicants' suitability for listing, the Stock Exchange of Hong Kong Limited (the "Stock Exchange") will also consider other factors to ensure the listing is 'genuine', so to prevent market manipulation.
2. In June 2016, in view of the volatility in the stock prices of GEM issuers, especially on the first trading date, the Stock Exchange issued a Guidance Letter on IPO vetting and suitability for listing<sup>3</sup>(HKEX-GL68-13A) (the "**Guidance Letter**"), stipulating seven characteristics of listing applicants which would give rise to concern on their suitability of listing, commonly known as 'the Seven sins'.
3. After raising the eligibility requirements for GEM listing since 15 February 2018<sup>4</sup>, the Stock Exchange further published a Listing Decision<sup>5</sup> (HKEX-LD121-2019) (the "**Listing Decision**") in March 2019, which summarises the principle reasons for the rejection of 24 listing applications as set out below:

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<sup>1</sup> Board Rules 8.04

[https://en-rules.hkex.com.hk/sites/default/files/net\\_file\\_store/new\\_rulebooks/c/o/consol\\_mb.pdf](https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/c/o/consol_mb.pdf)

<sup>2</sup> GEM Rules 11.06

[https://en-rules.hkex.com.hk/sites/default/files/net\\_file\\_store/new\\_rulebooks/c/o/consol\\_gem.pdf](https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/c/o/consol_gem.pdf)

<sup>3</sup> HKEX-GL68-13A

[https://en-rules.hkex.com.hk/sites/default/files/net\\_file\\_store/new\\_rulebooks/g/l/gl6813a.pdf](https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/g/l/gl6813a.pdf)

<sup>4</sup> [https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/June-2017-Consultation-Paper-on-Review-of-the-Growth-Enterprise-Market/Conclusions-\(December-2017\)/cp2017062cc.pdf](https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/June-2017-Consultation-Paper-on-Review-of-the-Growth-Enterprise-Market/Conclusions-(December-2017)/cp2017062cc.pdf)

<sup>5</sup> HKEX-LD121-2019

[https://en-rules.hkex.com.hk/sites/default/files/net\\_file\\_store/new\\_rulebooks/l/d/ld121-2019.pdf](https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/l/d/ld121-2019.pdf)

- i) Lack of commercial rationale for listing and no genuine funding needs<sup>6</sup>: in particular, failure to substantiate the commercial purpose for the proposed expansion, or how application of proceeds from listing makes commercial sense
  - ii) Unsupported valuation<sup>7</sup>: failure to justify why the forecasted price-earnings ratios were higher than those of industry peers. Price-earnings ratios become a more common issue as the market capitalization at listing for main board issuer is now set at HK\$500 million
  - iii) Packaging<sup>8</sup>: recent reorganisation and failure to demonstrate the group was operated as a single economic unit
  - iv) Deterioration of financial performance or sustainability of business<sup>9</sup>: failure to provide a sufficient basis to believe the situation would improve
  - v) Suitability of director/controller shareholders<sup>10</sup>: prior conviction or even regulatory investigation relating to dishonesty may give rise to a red-flag
  - vi) Non-ordinary course income<sup>11</sup>: failure to meet profit test or other listing criteria after excluding non-ordinary course income like non-regular government subsidiary and income from non-ordinary course of business
4. Intended listing applicants should consider the above factors, and in necessary case, conduct pre-listing health check to examine if any of the above factors may affect their intended listing applications.

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<sup>6</sup> HKEX-LD121-2019, page 2

<sup>7</sup> Ibid

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> HKEX-LD121-2019, page 3

<sup>11</sup> Ibid

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