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Fujian Nuoqi red flags should have been spotted before IPO, analysts say

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Fujian Nuoqi should have disclosed more information on its two failures to list on the mainland before floating its shares in Hong Kong, and CCB International, the sole sponsor of the share sale, may possibly be disciplined, analysts said.

The mainland fashion retailer had not given any reason for the rejection of its first listing application by the China Securities Regulatory Commission, corporate governance activist David Webb said yesterday.

CCB, the Securities and Futures Commission and the Hong Kong stock exchange declined to comment on the Nuoqi case. Stephenson Harwood, the international law firm that advised Nuoqi on its Hong Kong share offering, also declined comment.

"If there was a negative reason for the rejection, it should have been disclosed. If there was a technical reason for its rejection, then it need not be a cause for concern," Webb said.

Julian Russell, a director of risk consultancy Pacific Risk, said: "Nuoqi should have given the reason why it was rejected and why it should be able to list in Hong Kong. The people doing the due diligence should have found out the reasons for CSRC's refusal and addressed them."

Nuoqi listed in Hong Kong in January. On July 23, the company reported to Hong Kong police that its chairman and co-founder Ding Hui was missing. Just over a week later, the firm announced Ding had made unauthorised transfers of 232.05 million yuan (HK$292 million) from its coffers.

According to Nuoqi's listing prospectus, the company applied to the CSRC on March 6, 2011, for a share listing. On November 9, 2011, the regulator told Nuoqi that its application had been rejected.

The company applied again on May 18, 2012.

Owing to the "prolonged delay" and "the expected substantially shorter time required for a listing in Hong Kong", Nuoqi withdrew its mainland listing application on March 19 last year, it said in its prospectus.

Russell said the CSRC's rejection of Nuoqi's listing application indicated a high risk.

Webb said the problems at Nuoqi could potentially hurt CCB, as the sole sponsor of the mainland company's initial pubic offering in Hong Kong.

CCB might be punished if it was found to have committed wrongdoing, such as a lack of adequate due diligence, he warned.

Ding is one of eight missing Chinese executives detailed in a report issued yesterday by Capital Profile, a business intelligence company.

The others include Wong Choihing, a former chairman of Hong Kong-listed Hydoo International Holding; Fang Wei, the chairman of Fangda International Industrial Investment; Liu Shaoxi, the controlling shareholder of Shenzhen-listed Yihua Real Estate and Shanghai-listed Guangdong Yihua Timber Industry; Gu Shaoming, the chairman of Shanghai-listed Shenzhen Bauing Construction Holding Group); and Yang Qian, a vice-chairman of Shanghai-listed chemical producer Sichuan Hongda.

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