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News Release

HKEx News Release

25 July 2002

**Consultation Paper on Proposed Amendments to the Listing Rules
Relating to
Initial Listing and Continuing Listing Eligibility
And
Cancellation of Listing Procedures**

The Stock Exchange of Hong Kong Limited (the Exchange), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx), has published a *Consultation Paper on Proposed Amendments to the Listing Rules relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures (the Consultation Paper)*.

The quality of the market is crucial for investor confidence. It is the principal function of the Exchange to provide a fair, orderly and transparent market for the trading of securities. The Rules Governing the Listing of Securities on the Exchange (the Main Board Rules) are designed to secure and maintain the quality of the market place and investors' confidence in it.

In January this year, the Exchange published the Consultation Paper on Proposed Amendments to the Listing Rules relating to Corporate Governance Issues (Corporate Governance Consultation Paper). The aim underlying the Corporate Governance Consultation Paper was to further enhance the quality of the issuers listed on the Exchange and to strengthen Hong Kong's position as an international financial centre. In line with this aim, the Exchange, as an ongoing effort, has initiated a review of the Main Board Rules on the eligibility criteria for initial listing and continuing listing, with a view to further enhancing the quality of the issuers listed on the Exchange and bringing the requirements of the Main Board Rules on a par with international standards. As part of the review, the Exchange has published a consultation paper seeking views on proposals relating to initial listing and continuing listing eligibility and cancellation of listing procedures.

In the Consultation Paper, the Exchange has reviewed the Main Board Rules generally applicable to issuers of equity securities (but not debt securities) applying for listing or already listed on the Main Board of the Exchange under Chapter 8 of the Main Board Rules,

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as well as mineral companies and infrastructure companies. The Exchange has not included The Rules Governing the Listing of Securities on the Growth Enterprise Market (GEM) of the Exchange (the GEM Rules) in the review given that a fairly comprehensive review of the GEM Rules was conducted in year 2000 and revised rules were introduced in September 2001. The Exchange may, however, consider carrying out a similar review for GEM in the near future, based on the responses to the review this time for the Main Board Rules.

The consultation paper is divided into five main sections, (1) initial listing eligibility criteria, (2) continuing listing eligibility criteria, (3) continuing obligations, (4) cancellation of listing procedures, and (5) disclosure requirements at the time of initial listing.

Initial Listing Eligibility Criteria

The current Main Board Rules contain both quantitative and qualitative requirements relating to qualification for listing but these are rather limited. To bring the initial listing requirements under the Main Board Rules on a par with international standards, the Exchange proposes to introduce new quantitative tests to assess the financial performance of a listing applicant, so that opportunities will be offered to listing applicants that may not meet the profit requirement, but are otherwise of a size that is able to attract significant public interest. The proposals on the initial listing eligibility criteria should, however, be viewed as part of a package and not individually.

The principal proposals relating to Initial Listing Eligibility Criteria are:

- to require a listing applicant to have a trading record period of not less than three financial years;
- to require a listing applicant to demonstrate management continuity during the three-financial-year trading record period and ownership continuity and control for at least the most recent financial year of the trading record;
- to maintain the current profit requirement as one of the quantitative tests for assessing the track record performance of a listing applicant;
- to substitute pre-tax profits for post-tax profits for the purpose of satisfying the profit record requirement;
- to allow for greater flexibility in the spread of the minimum HK\$50 million aggregated profit;

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- to introduce the following new financial standards alternative to the profit requirement:
- market capitalisation/revenue/cash flow test which will apply to listing applicants with a market capitalisation of at least HK\$2 billion at the time of listing, revenue of at least HK\$500 million during the most recent financial year comprising 12 months and positive cash flow from operating activities that are to be listed of at least HK\$100 million in aggregate for the three-financial-year track record period; and
- market capitalisation/revenue test which will apply to listing applicants with a market capitalisation of at least HK\$4 billion at the time of listing and revenue of at least HK\$500 million during the most recent financial year comprising 12 months. A waiver from the trading record requirement may be granted to listing applicants applying to be listed under the market capitalisation/revenue test if listing applicants are able to meet minimum requirements on management experience and number of shareholders;
- to require a listing applicant to show that it has sufficient working capital (including the proceeds raised from listing) for its current needs and for at least the next 12 months from the date of the initial listing document;
- to require a listing applicant to have a market capitalisation (of securities listed on all regulated markets including the Exchange) of HK\$200 million at the time of listing;
- to require a listing applicant to have at least 25% of the listing applicant's total existing issued share capital held by the public (on all regulated markets including the Exchange);
- to require a listing applicant to have at least 300 shareholders, and in case of a listing applicant to be listed under the market capitalisation/revenue test, to have at least 1,000 shareholders;
- to set the minimum issue price at HK\$2;
- to apply the initial listing eligibility criteria equally to listing applicants of mineral companies and infrastructure companies. A waiver from the trading record requirement and/or financial standards requirement may be granted to listing applicants that are mineral companies and infrastructure companies if such listing applicants are able to meet the minimum requirement on management experience; and

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- to require existing issuers that will be treated as new listing applicants under the current Main Board Rules, and if the proposal on "reverse takeover" in the Corporate Governance Consultation Paper is adopted, issuers that engage in transactions leading to "reverse takeover", or the assets to be acquired, to meet the initial listing eligibility criteria.

Continuing Listing Eligibility Criteria

In addition to the existing requirements under the current Main Board Rules, the Exchange proposes to introduce certain quantitative criteria and disclosure requirements so as to ensure the overall quality of the issuers listed on the Main Board of the Exchange exists, not only at the initial listing, but also on an ongoing basis after listing. The proposals aim at setting criteria on eligibility for continuing listing which, if not met, will result in cancellation of the listing of the issuer's securities.

The principal proposals relating to Continuing Listing Eligibility Criteria are that an issuer will fail to meet the continuing listing eligibility criteria on the occurrence of any one or more of the following events:

- where an issuer has been, after tax, loss making for three consecutive years and has negative equity; or where an issuer has been, after tax, loss making for three consecutive years and its average market capitalisation is less than HK\$50 million over 30 consecutive trading days;
- where the average market capitalisation of an issuer is less than HK\$50 million over 30 consecutive days, and the shareholders' equity of an issuer is less than HK\$50 million;
- where the average market capitalisation of the securities of an issuer listed and traded on the Exchange is less than HK\$30 million for 30 consecutive trading days regardless of the level of shareholders' equity;
- where the court has served a winding up order on an issuer; or where the issuer goes into receivership or provisional liquidation; or the subsidiaries of an issuer, whether singly or together, accounting for more than 75% of the issuer's total assets or operations or turnover or after tax profits or production volume, have been served with a winding up order, or go into receivership or provisional liquidation, and the remaining business of the issuer is unable to meet all the initial listing eligibility criteria, except for the market capitalisation requirement and the spread of shareholders requirement which the issuer

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has to comply with on a continuing basis;

- where the most recent auditor's report of an issuer contains a total disclaimer opinion or an adverse opinion;
- where the moving average of the daily volume weighted share price of an issuer over 30 consecutive trading days is less than HK\$0.50;
- where after a corporate action undertaken by an issuer, there is a decrease in its total assets or operations or turnover or after tax profits by 75% or more of those of the immediately preceding financial year, and the remaining business of the issuer will be unable to meet all the initial listing eligibility criteria, except for the market capitalisation requirement and the spread of shareholders requirement which the issuer has to comply with on a continuing basis;
- where an issuer, after undertaking a corporate action, becomes a cash company by having 90% of its net assets in cash or short dated securities or portfolio shares investment or other marketable securities;
- where the securities of an issuer have been suspended from trading for a continuous period of 12 months;
- where an issuer fails to comply with paragraph 38 of the Listing Agreement in not having sufficient assets or operations to warrant the continuing listing of the issuer's securities on the Exchange;
- where an issuer has persistently failed to comply with the Main Board Rules; and
- where in the opinion of the Exchange, there exists or occurs any event, condition or circumstances that makes further dealings or listing of an issuer's securities contrary to the Exchange's general principles.

Continuing Obligations

The Main Board Rules together with the Listing Agreement prescribe a number of continuing obligations that an issuer is required to comply with once its securities are listed on the Exchange. With a view to promoting a higher standard of corporate governance and ensuring that the affairs of issuers are conducted with transparency, the Exchange proposes to introduce new continuing obligations which, if not met, will result in the issuer facing

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disciplinary action.

The principal proposals relating to Continuing Obligations are:

- to make the continuing obligations requirements contained in the Listing Agreement part of the Main Board Rules;
- to require an issuer to maintain the public float at the same level fixed at the time of initial listing;
- to require an issuer to maintain at least the minimum number of shareholders applicable to the issuer at the time of its initial listing;
- to immediately suspend trading of the securities of those issuers that fail to publish their financial results on the due date; and
- to introduce a new continuing obligation with regard to the provision of information by the issuer to the Exchange.

Cancellation of Listing Procedures

The introduction of the quantitative and qualitative continuing listing eligibility criteria provides an objective, effective, transparent and fair means for the Exchange to review the appropriateness of the continuing listing of an issuer. A new set of cancellation of listing procedures will apply where an issuer fails to comply with any one or more of the continuing listing eligibility criteria. By introducing a new set of cancellation procedures, we aim at shortening the whole delisting process such that it can be completed:

- not exceeding six months where no proposal is submitted, or the proposal submitted by the non-compliant issuer to restore itself to compliance with the continuing listing eligibility criteria is disapproved by the Exchange; or
- not exceeding 12 months where the non-compliant issuer fails to implement the proposal that has been approved by the Exchange to restore itself to compliance with the continuing listing eligibility criteria.

The principal proposals relating to Cancellation of Listing Procedures are:

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- where an issuer fails to comply with any one or more of the continuing listing eligibility criteria, the New Delisting Procedures will apply. The principles of the New Delisting Procedures will give a non-compliant issuer an opportunity to submit one proposal (and not multiple proposals) within the specified period to bring itself back to long-term, sustained compliance with the continuing listing eligibility criteria, failing which the issuer would, subject to the process of natural justice, face cancellation of the listing of its securities; and
- an issuer that is subject to the New Delisting Procedures will have the right to appeal to the Committee that has the authority to consider appeal matters against the decision of the Exchange to cancel the listing of its securities.

Disclosure Requirements at the time of Initial Listing

To enable investors to better assess a listing applicant's achievement so they can evaluate and make their investment decisions accordingly, the Exchange proposes to introduce additional disclosure requirements in initial listing documents to enhance disclosure in the areas of corporate matters, including the pre-listing corporate governance related practices, of a listing applicant.

The principal proposals relating to Disclosure Requirements at the time of Initial Listing are:

- to require disclosure of information on over-allotment options or price stabilising activities that a listing applicant or its selling shareholder has entered into in connection with an offering;
- to require disclosure of corporate governance practices during the track record period;
- to require description of matters that a listing applicant relied on in satisfying itself that it is capable of carrying on its business independently of the persons who are in control of the listing applicant;
- to require inclusion of management accounts from the latest financial period of the accountants report to a period that is not more than three months before the date of the initial listing document; and
- to require disclosure of more detailed information on the expertise, experience and qualification of the management of a listing applicant.

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We have set out above only our principal proposals on the amendments to the Main Board Rules relating to initial listing and continuing listing eligibility and cancellation of listing procedures. You are requested to refer to the consultation paper for details of our proposals.

The issues raised in the consultation paper are extensive. We anticipate that there will be divergent views on our proposals. It is our objective to receive comments on our proposals from a wide spectrum of respondents. Accordingly, the Exchange will provide a hotline service during the consultation period at 2840 3800 or 2840 3400 to respond to any queries that respondents may have relating to our proposals. In addition, we will hold seminars for issuers and market practitioners to discuss our proposals set out in the consultation paper.

Copies of the consultation paper and questionnaire will be despatched to the issuers and market practitioners on 26 July 2002. Copies are available at the office of the Exchange at 11/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. The consultation paper can also be viewed at or downloaded from the HKEx website: www.hkex.com.hk.

Interested parties are invited to submit to the Exchange their comments on the consultation paper by completing and returning the questionnaire booklet. If the use of the questionnaire booklet alone is not adequate to fully communicate comments on the proposals in the consultation paper, respondents are welcome to supplement their comments and views by attaching additional sheets to the questionnaire booklet. They may complete and submit the electronic questionnaire available at www.hkex.com.hk. They may also download a soft copy of the questionnaire from the HKEx website and thereafter submit the completed copy via email at cvw@hkex.com.hk. Responses should arrive no later than the close of business on 31 August 2002.

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HKEx Statement

26 July 2002

HKEx clarifies proposals on penny stocks

In response to media enquiries, Hong Kong Exchanges and Clearing Limited (HKEx) has issued the following statement.

HKEx wishes to clarify the proposals on penny stocks are only part of a market consultation relating to the Main Board Listing Rules. HKEx expects a variety of responses from market participants.

It would take a few months to formulate the rules for the implementation of any changes after the consultation.

If any new rules on delisting of existing penny stocks were adopted, they would be subject to a 12-month transition period before implementation. Investors would be informed well in advance if any changes were to be implemented.

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HKEx News Release

27 July 2002

HKEx has extended the consultation period and will publish a supplementary paper on the delisting proposal

Hong Kong Exchanges and Clearing Limited (HKEx) has extended to the close of business on 31 October the consultation period on proposed amendments to the Stock Exchange Main Board Listing Rules relating to listing eligibility. The consultation period was originally scheduled to end at the close of business day, 31 August.

“This extension gives individuals and organisations more time to consider our proposals and submit their response and comments,” said Kwong Ki-chi, Chief Executive of HKEx.

HKEx will also publish a supplementary paper relating to the proposed continuing listing eligibility criterion that a company will be delisted if the market price of its shares over 30 consecutive trading days is less than \$0.50. “We wish to emphasise that we are genuinely consulting the market on the package of proposals set out in the consultation paper published on 25 July. We have noted the market concern expressed, in particular about the proposal to consider delisting the shares whose market price over 30 consecutive trading days is less than \$0.50. We will sound out market participants especially on this proposal and issue a supplementary consultation paper on or before 31 October,” Mr Kwong said.

Market participants who wish to arrange meetings with HKEx executives to express their views on the listing eligibility proposals may call 2840 3895 from Monday, 29 July, during office hours 9:00am – 5:30pm. HKEx is also arranging seminars for listed issuers to explain details of the consultation paper. HKEx welcomes comments from all sectors of the market.

Copies of the consultation paper and questionnaire are available at the office of HKEx at 11/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. The consultation paper can also be viewed at or downloaded from the HKEx website: www.hkex.com.hk. Comments on the paper can be submitted by completing and returning the questionnaire booklet. If more space is needed for comments, additional sheets may be attached to the questionnaire. Comments on the paper can also be submitted through the electronic questionnaire available at www.hkex.com.hk.

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28 July 2002

Chairman Charles Lee's statements on market consultation relating to listing eligibility

The Chairman of Hong Kong Exchanges and Clearing Limited (HKEx), Mr Charles Lee, today made the following statements at a Government press conference:

1. The market mistakenly believed that shares with a market price below 50 cents were to be delisted. However, HKEx was only proposing that stocks falling short of the 50 cents mark should address the deficiency by consolidating their shares, or by other means.
2. To meet the concerns and clear up misconceptions, HKEx has decided to take out the whole of Part C of the consultation paper for separate discussion with the market in order to strengthen the proposals. HKEx will publish a supplementary consultation paper at the end of October and the market will be given three months to express its views.
3. HKEx will continue to collect market views on the other proposals set out in the consultation paper published on 25 July. The consultation period will close at the end of October. After the consultation period, if any new rules are to be implemented, HKEx will allow the market a sufficient transitional period.

Mr Lee's remarks are enclosed.

English Transcript of Chairman Charles Lee's remark at today's press conference held at the Government Press Conference 28 July 2002

Good evening, ladies and gentlemen.

HKEx published last Thursday a Consultation Paper on Proposed Amendments to the Listing Rules relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures. Proposals in the consultation paper aimed to introduce into the securities market a proper exit for listed issuers and strengthen protection of shareholders, especially minority

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shareholders, to promote corporate governance amongst our listed companies, and to strengthen Hong Kong's position as an international financial centre.

HKEx noted the concerns of the market over some proposals in our consultation. Yet I see some misunderstanding here. The market mistakenly believed that shares with a market price below 50 cents were to be delisted. However, we were only proposing that stocks falling short of the 50 cents mark should address the deficiency by consolidating their shares, or by other means.

To meet the concerns and clear up misconceptions, HKEx has decided to take out the whole of Part C of the consultation paper for separate discussion with the market in order to strengthen the proposals. We will publish a supplementary consultation paper at the end of October and the market will be given three months to express its views. I reiterate that the original consultation document only suggested that an issuer can bring its share price in compliance with the proposed minimum level of HK\$0.50 by consolidation.

HKEx will continue to collect market views on the other proposals set out in the consultation paper published on 25 July. The consultation period will close at the end of October. HKEx welcomes comments from all sectors of the market. After the consultation period, if any new rules are to be implemented, HKEx will allow the market a sufficient transitional period.

There will also be an appeal mechanism if new rules are implemented. This will ensure that the new rules are implemented in a fair manner.

Finally, I wish to remind listed companies that they may consider repurchasing their shares to maximise shareholder value. This is allowed under the current Listing Rules.

Thank you.