

THE LISTING COMMITTEE
ANNUAL REPORT
2006

INTRODUCTION

1. This is the third Annual Report [excluding the calendar year report] of the Main Board and GEM Listing Committees of the Stock Exchange of Hong Kong Limited. The Main Board Listing Committee and GEM Listing Committee have operated as an integrated committee since 2003. Throughout this report the expressions Listing Committee and Committee refer to the combined Committees unless the context requires otherwise.
2. This report is an account of the work of the Listing Committee in contributing to the success of the Hong Kong listing regime. It describes another full and productive year of work.
3. The Annual Report has been prepared for the Board of The Stock Exchange of Hong Kong Limited (“SEHK” or the “Exchange”) and the Board of its parent company, Hong Kong Exchanges and Clearing Limited (“HKEx”). The Listing Committee is committed to being as transparent as possible and it has been agreed that this report will be forwarded to the Securities and Futures Commission (“SFC”) and will be published on the HKEx website.
4. The Listing Committee has no staff and has not requested a budget from the Exchange or HKEx and accordingly its members provide their services for free.
5. This report covers the 53 week period from 14th May 2005 to 18th May 2006, which for convenience is referred to as the year. The comparative period in this report is the 54 week period ended 13th May 2005. Further details in respect of the period for which the Committee is appointed are set out in Appendix I.

MEMBERSHIP

6. The Main Board and GEM Listing Committees, under the Listing Rules extant prior to 18th May 2006, had 24 and 20 external members respectively drawn from the categories of exchange participants, listed company representatives and market practitioners and users. The Chief Executive of HKEx is an ex officio member of both Listing Committees and provides a bridge between the Committees, the senior executive of HKEx and the Board of HKEx. Members are appointed to the Committee annually or to fill casual vacancies. Further details on the appointment of Committee members are set out in Appendix I.
7. A list of members who served on the Committees during the year is set out in Appendix

II and their attendance record is set out in Appendix III. At the commencement of the year there were two vacancies on the Main Board Committee in the exchange participant category. The resignation of a member in the Listed Company category in August 2005 increased the vacancies on the Main Board Committee to three and also created a vacancy in the GEM Listing Committee. These remain unfilled at the year end.

8. On 19th May 2006, rule amendments came into effect to expand each of the Main Board Listing Committee and the GEM Listing Committee to comprise at least twenty-eight members; and change the composition of each of the Committees to include at least eight investor representatives. A more detailed account of the changes is set out in paragraphs 16 to 20 of this Annual Report.

ROLE AND MODE OF OPERATION OF THE LISTING COMMITTEE

9. The Listing Committee acts both as an independent administrative decision maker and an advisory body for the Exchange.
10. The Listing Committee has four principal functions:
 - To oversee the Listing Division (to the extent that this is practicable given the Committee's mode of operation and in the manner described in Appendix I)
 - To provide policy advice to the Listing Division on listing matters and to approve amendments to the Listing Rules
 - To take decisions of material significance for listed companies, sponsor firms and the individuals concerned
 - To act as a review body (in its role as the Listing (Review) Committee) for decisions made by the Listing Division and by the Listing Committee
11. A more detailed description of the role and mode of operation of the Listing Committee and its approach to handling conflicts of interest is set out in Appendix I.

MAIN ISSUES ARISING IN THE YEAR

12. This section of the Annual Report contains a summary of the issues the Listing Committee has dealt with during the year which we believe will be of greatest interest to the investing public, practitioners and listed companies, and outlines the position or action the Listing Committee has taken.

Transparency

13. It is important for the listing decision making process to operate fairly and consistently. The following measures represented progress made in enhancing transparency in the listing decision making process:
- The Listing Division explains the decision-making process relating to key decisions or novel matters by publishing on an anonymous basis Listing Decisions and, since December 2004, Rejection Letters so that the principles and rationale behind them are communicated.
 - The Listing Division encouraged by the Listing Committee has been moving towards establishing operational standards which will provide practitioners and listed companies with greater certainty about the relevant listing decision process.
 - Detailed biographies of Committee members were published on the website of HKEx during the year in order to provide parties who will appear before the Committee with more details about members' business and other interests to assist in the identification of possible conflicts arising from those interests.
 - The publication of this Annual Report gives an account of the more important issues that the Listing Committee has considered in the year, some statistics about the decisions made and activities of the Listing Committee.
14. The need to maintain confidentiality, for reasons related to natural justice or because statutory secrecy provisions apply, means that it is often difficult or inappropriate for the Committee to comment on individual cases including disciplinary matters until these have been concluded. This can present a particular challenge where matters attract media coverage, accordingly, individual Committee members and staff of the Exchange are often not in a position to respond to media enquiries about specific cases. Nonetheless, the Committee is committed to operating in as transparent a manner as its constraints permit.
15. The Listing Committee is open to suggestions of what further information could be published which would enable the investing public, practitioners and listed companies to make a better informed assessment about how well the listing decision making process is working.

Listing Committee structure conclusions

16. The Listing Committee's 2005 Annual Report referred to a consultation paper published by HKEx regarding composition and operation of the Listing Committee.¹

¹ See the discussion regarding Consultation on New Structure for Listing Decision Making commencing at paragraph 18 of the 2005 Annual Report.

17. In October 2005 the Listing Committee considered the submissions made in response to the consultation paper – 18 submissions including seven from industry groups. The Listing Committee noted that many respondents were supportive of some or all of the consultation proposals. However, the Listing Committee also noted that two significant uncertainties had arisen which affect the issues being the subject of the consultation. Namely, a continuing judicial review concerning the procedures of the Listing Committee was going through the Courts.² Also, there is continuing consideration by the Administration and the SFC regarding which of the current obligations set out in the Listing Rules will be given statutory backing. In light of these uncertainties, the Listing Committee resolved to address the consultation proposals in two phases.
18. In the first phase a limited number of amendments were made to the Listing Rules to address the most significant concerns of respondents to the consultation. The amendments have had the following effect:
- (a) to expand the Listing Committee and the GEM Listing Committee to at least 28 members (increased from 25 and 21, respectively);
 - (b) to change the composition of the Listing Committee and the GEM Listing Committee to include at least eight investor representatives, the HKEx Chief Executive and, otherwise, a suitable balance of representatives of listed issuers and market practitioners including lawyers, accountants, corporate finance advisers and Exchange Participants or officers of Exchange Participants;
 - (c) to increase the maximum term for Listing Committee and GEM Listing Committee members to six years (from three years for regular Committee members and four years for the Committee Chairman and Deputy Chairman); and
 - (d) to change the composition of the Listing Nominating Committee (LNC), which nominates candidates for appointment to the Listing Committee, to make it even more independent of the Exchange Executive by making the HKEx representatives on the LNC three non-executive directors rather than two non-executive directors and the Chief Executive of SEHK.
19. The Listing Rule amendment regarding composition of the LNC became effective on 3rd February 2006³. The balance of the first phase Listing Rule amendments became

² The judicial review, which involved SEHK and New World Development Company Limited and Others, was concluded in favour of SEHK on 6th April 2006.

³ On 15th February 2006 HKEx announced that the HKEx Board had appointed non-executive director, Mr David Webb, to replace current Chief Executive of the Exchange, Mr Patrick Conroy, on the LNC.

effective on 19th May 2006.

20. With the judicial review resolved, the Listing Committee plans that the second phase of the consultation conclusions will take place once further progress is made in settling the content of the proposed Stock Market Listing Rules, which will give statutory backing to some of the obligations currently in the Listing Rules. In the second phase the Listing Committee will revisit the original consultation proposals and determine which of the remaining proposals continue to be appropriate.

IPO applications – delineation of business

21. Rule 8.10 requires specific information to be disclosed concerning excluded businesses owned by controlling shareholders of listed issuers, but does not clearly establish that such businesses raise eligibility concerns under Rule 8.04. While in certain cases excluded businesses may raise suitability issues,⁴ regardless of whether this is the case it is the current practice of the Exchange to review three areas that appear frequently as issues in such cases:

- delineation of the new applicant's business from that of the controlling shareholder;
- independence of the new applicant's business from that of the controlling shareholder; and
- arrangements for managing conflicts of interest in light of the controlling shareholder's interest in the competing business.

22. It is not the ordinary practice of the Exchange to request the use of a non-competition undertaking where one is not proposed to exist. However, the Listing Division does review the delineation arrangement and arrangements for managing conflicts whether memorialized in non-competition agreements or in other ways, and the comments of the Listing Division often have a substantive effect on the corporate governance of the new applicant in this area. In addition to non-competition agreements, other arrangements have been adopted by applicants on a case by case basis to memorialise how two companies controlled by a single controlling shareholder intend to manage their affairs. These arrangements are also subject to review and commentary from the Exchange and include:

- *Independent director review* – the independent directors undertook to review options,

⁴ See Paragraph 26 of The Listing Committee 2005 Annual Report.

pre-emptive rights or rights of first refusal granted by the controlling shareholder over its existing or future competing businesses and decide whether to exercise these rights. This practice is consistent with the principles in the Code on Corporate Governance Practices which promote a strong independent element on the board.

- *Increased transparency* – the controlling shareholder undertook to provide all information necessary for the enforcement of the options, pre-emptive rights or rights of first refusal. This is particularly relevant where the listed issuer holds rights of first refusal over future opportunities. This practice is consistent with the principles concerning access to information in the Code on Corporate Governance Practices.
- *Public disclosure of decisions* - the listed issuer explicitly agreed to disclose decisions on matters reviewed by the independent directors relating to the exercise or non-exercise of options, pre-emptive rights or rights of first refusal either through the annual report, or by way of announcements to the public.

23. Following a request for guidance by the Listing Division in the year under review, the Committee agreed that the current practices of the Listing Division should continue. In appropriate circumstances measures adopted by listing applicants may also be considered by the Committee to be conditions necessary for the listing applicant to be considered suitable for listing under Rule 8.04. Such cases would be identified by the Committee at the time listing approval is granted and appropriate disclosure would be required in the Company's listing documents.

Listing of applicant operating jointly controlled entity under Rule 8.05B(3)

24. In February 2005 the Committee had approved, as an interim measure towards the development of a final policy position, a framework for considering listing applications from companies that conducted a substantial part of their operations through jointly controlled entities ("JCEs"). The Committee subsequently approved a listing application from a company piloting that framework. A key element of the proposed framework is that the JCEs would be regulated as subsidiaries rather than as associated companies. The Committee reviewed the experience of piloting the framework on an individual application and, in the January 2006 policy meeting, re-affirmed the framework and indicated that this should now be the subject of further refinement and, in due course, market consultation.

Preferential terms of private equity investments made immediately before or on listing

25. In the year under review, the Committee noted that a number of pre-IPO placings to private equity investors shortly before listing afforded preferential terms to pre-IPO investors that would not be available to other equity investors after listing. These preferential investment terms included various combinations of guaranteed discounts to the IPO share price; put options that would continue after listing; payment provisions that were conditional on in-principle approval for listing being granted; and changes to the terms of pre-IPO investments made after in-principle approval for listing had been granted.
26. While the Committee does not consider pre-IPO placings shortly before listing to be objectionable⁵, the Committee considered that preferential investment terms available only to pre-IPO investors may at times be inconsistent with the principle that all holders of listed securities are to be treated fairly and equally, memorialized in Rule 2.03. This would particularly be the case in circumstances where the terms of the pre-IPO investment meant that private equity investors would not have experienced equity risks significantly different from those experienced by public investors, or would be protected from certain types of equity risks after listing in a manner that was significantly different from that experienced by public investors. In such cases the Committee considered it appropriate to require the preferential terms to be removed or altered prior to listing in order to satisfy the principles of Rule 2.03.
27. To enable the market to further understand the rationale behind the decisions of the Committee, the Division has published a new series of Listing Decisions under references HKEx-LDs 55-1 to 55-3 [June 2006].

Listing gaming companies

28. Rule 8.04 provides that an issuer and its business must be suitable for listing. (GEM Rule 11.06 contains a similar provision.) An issuer and its business would not be suitable if, amongst other things, the listing were against the public interest. Consequently, from time to time the Listing Committee considers whether certain types of business are against the public interest. Gambling-related activities are one such type of business which has been subject to periodic review.
29. The Exchange's position regarding gambling-related activities is set out in a press release published on 11th March 2003 (the 2003 Press Release). The 2003 Press Release states that it would not be against public policy for an issuer to be involved in

⁵ See Listing Decisions Series 36 published in October 2003.

the operation of a gambling activity which: (1) is not unlawful under the Gambling Ordinance (i.e. an activity that takes place outside Hong Kong and for which the bookmaking transactions and the parties to the transactions are outside Hong Kong); and (2) does not violate any applicable laws in the area where such activity operates (the Relevant Area).

30. In January 2006 the Listing Committee endorsed the policy set out in the 2003 Press Release. The Committee noted that in order for it to be comfortable that a gambling activity does not violate any applicable laws in the Relevant Area it would expect to be given evidence, in the form of independent third party verification, to the effect that the activity is being carried out under the express authority of the Government of the Relevant Area. For example, in the case of a Macau casino, the Listing Committee would require independent third party verification that the casino is expressly authorised (e.g. licensed) by the Macau SAR Government. The Listing Committee noted that internet or online gambling companies would generally not be authorised in the Relevant Area; even where they are licensed or otherwise authorised in one jurisdiction they generally operate beyond that jurisdiction e.g. they may be licensed in one country but have customers based in part or whole outside of that country.
31. In the case of issuers operating or being involved in activities that are not expressly authorised as described above, the Listing Committee will consider suitability on a case by case basis. That might include gambling activities carried on in a jurisdiction where the Government does not have a system for authorisation and regulation of gambling activities. Amongst other things, the Committee will seek to understand how the issuer avoids offending section 25 of the Organised and Serious Crimes Ordinance, Cap. 455, which is concerned with dealing in the proceeds of an indictable offence where an “indictable offence” may include conduct that would be criminal if it occurred in Hong Kong even if it is not criminal in the place where it occurs e.g. operating an unauthorised gambling establishment.

Presentation of accountants’ reports – merger accounting and carve-outs

32. In the course of considering new listings, the Listing Committee noted the Listing Division often commented on the basis of preparation of accountants' reports. It noted that reporting accountants adopted different approaches in presenting historical information of the listing applicants. The different approaches arose in situations where there was a restructuring of the companies or businesses to be included in the listed group.
33. The two principle approaches included:-

- (a) The adoption of the “overall group approach” where historical financial information in the accountants’ report included disclosure of both the companies and businesses to be continued in the listed group together with separate disclosure of the businesses that would be discontinued upon listing.
 - (b) The adoption of the “carve-out approach” where historical financial information included in the accountants’ report was restricted to the information on the continuing businesses to be retained by the listed group.
34. The question was which approach would represent best practice and whether both approaches should be acceptable.
35. Under both approaches, “as if” combined historical information of the group to be listed was also normally presented – the so called “merger accounting approach”. In the absence of detailed accounting standard issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) or the International Accounting Standards Board, the use of “the merger accounting approach” was considered the appropriate approach in circumstances where there was a continuation of control by common shareholders over the full track record period. Such an approach is briefly mentioned in Appendix 3 of HKICPA’s Auditing Guideline No. 3.340 “Prospectuses and the Reporting Accountant” but the guidance does not set out in detail when and how merger accounting could be used. In November 2005, the HKICPA issued its Accounting Guideline No.5 – “Merger Accounting for Common Control Combinations”. This provided useful guidance on the use of merger accounting for entities and businesses under common control but the guidance did not deal with the question of “carve-outs”.
36. In considering the above question, the Listing Division identified useful guidance available in other jurisdictions and in particular that contained in a new UK Standard for Investment Reporting 2000 (“UK SIR 2000”) which was issued in July 2005.
37. UK SIR 2000 specifically addressed the question of carve-outs and states that where a business formed part of larger group (“overall group”) during the relevant track record period, but has not been accounted for separately, it may be desirable to present a separate track record (a “carve-out”) for that business (“carve-out business”), derived from the records of the overall group. This approach may be preferable to the alternative approach of presenting the track record of the overall group, with appropriate disclosures of operations discontinuing or not acquired.
38. The UK guidance also states that when considering whether it is appropriate to present carved-out financial information, the following factors will be relevant:

- (a) the extent to which the carve-out business has been separately managed and financially controlled within the overall group; and
- (b) the extent to which it is practicable to identify the historical financial information attributable to the carve-out business.

39. The conclusion therefore was that the two different approaches would be equally acceptable. However, in selecting the appropriate approach it is necessary to look at the facts and circumstances of each individual case. The carve-out approach may be adopted if such business is clearly delineated from other businesses in terms of nature of business and management and there are clearly identifiable assets, liabilities, revenues and expenditures.

Rule 8.05 and property valuations

40. In considering a listing application during the year, the Listing Committee observed that the applicant would not have met the minimum profit requirements under Rule 8.05(1) if fair value gains arising from the revaluation of investment properties at the balance sheet dates were excluded. The Committee noted that in assessing whether a listing applicant met the profit record requirement under the rule, profits earned outside the ordinary and usual course of a company's business should be excluded.

41. In this particular case, because the listing applicant was a property developer, the Listing Committee concluded that it was difficult to regard the revaluation gains on its portfolio of investment properties as being outside its ordinary course of business. The Committee therefore determined that in assessing whether it had met the track record requirement the listing applicant should be permitted to include the revaluation gains. The Committee directed that there should be prominent disclosure of the effect of the revaluation gains on the applicant's track record and the disclosures made in the prospectus addressed the Committee's concerns.

42. The Committee also directed the Listing Division to carry out research to determine whether any changes should be made to Rule 8.05. In a policy meeting held in January 2006, the matter was discussed and it was decided that the Listing Division should develop amendments to Rule 8.05 to introduce supplementary assets and cash flow tests.

Related party disclosures

43. Both Hong Kong and International Financial Reporting Standards require related party disclosures. The objective of the disclosures is to ensure that an entity's financial

statements contain disclosures necessary to draw attention to the possibility that its financial position and results may have been materially affected by the existence of related parties, and by transactions and outstanding balances with such parties.

44. In considering listing applications in 2005 and especially those of H-share companies, the Listing Committee noted that reporting accountants adopted two different interpretations of the Hong Kong and the equivalent International Financial Reporting Standard on related parties (HKAS 24 / IAS 24) as follows:-

(a) One approach interpreted the financial reporting standards plainly and considered that all state-controlled entities are related parties for the purposes of disclosures under HKAS 24 / IAS 24 but at the same time, recognised the practical difficulties in identifying all state-controlled entities in the PRC.

(b) The other approach gave more weight to the substance of a relationship with state-controlled entities over the legal form of the relationship. The proponents of this approach took the view that the tracking of related parties should be cut off at a level where it was judged that there was no substance of a significant relationship (e.g. at the State level or its representing governmental agencies). The supporters of this approach accepted that the cut-off at the State level may sometimes lead to the omission of transactions that warranted disclosure. Thus they agreed that where this was the case supplemental disclosures should be provided to ensure that all relevant information is disclosed in the financial statements.

45. The Listing Committee recognized the rationale for the two interpretations and concluded that there should not be a substantial difference in the material information ultimately disclosed under the two methods. Both approaches, taking into account the supplementary disclosures made under the second approach, resulted in the disclosure of all significant related parties and relevant transactions which was consistent with the key objective of achieving comparability of information between companies and meeting the expectations of users of financial statements.

46. The Listing Committee also concluded that so long as there was qualitative and quantitative disclosure of all relevant and material information, it was not necessary for the disclosures to be contained in one single comprehensive "Related Parties" note in the financial statements.

47. We understand that the Hong Kong Institute of Certified Public Accountants has informed the International Accounting Standards Board ("IASB") of the possible different interpretations of the related party accounting standard as it relates to state-

controlled entities and the IASB has agreed to look into the issue with a view to providing further interpretative guidance on the appropriate methodology for reporting relevant transactions.

Independence of sponsors

48. Rule 3A.07(9) provides that a sponsor is not regarded as independent if that sponsor has a current business relationship with a new listing applicant such that it would be reasonably considered to affect its independence in performing its duties (the Current Business Relationship Test), or might reasonably give rise to a perception that the sponsor's independence would be so affected (the Perception Test). Such tests are wider than the other objective bright line tests also imposed under Rule 3A.07. In the course of the year, the Listing Committee has provided guidance on the proper basis for applying such tests. In a case considered, the sponsor of a listing applicant also advised the listing applicant's controlling shareholder on its sale and transfer of substantially all operations and assets of a business group to the listing applicant. The transaction constituted a reverse takeover and a deemed new listing application under the relevant Listing Rules. The Listing Committee upheld the decision of the Listing Division that the sponsor in question had a Current Business Relationship with the controlling shareholder of the applicant at the material time which would be reasonably considered to affect its independence in the performance of its duties as a sponsor. In coming to its decision, the Listing Committee observed that clear conflicts of interest would exist if the sponsor in question acted as both the financial adviser to the controlling shareholder in the sale of substantial assets to a new listing applicant and the sole sponsor to the listing applicant.

49. In another case, the controlling shareholder of a sponsor held direct equity interest in the parent company of another joint sponsor in an amount less than the thresholds contemplated by Rule 3A.07(1). The Listing Committee considered that in light of other past and present business contacts the Current Business Relationship Test should also apply. In applying the Test in this instance, the Listing Committee considered the size of that shareholding and the contribution it made to the offending sponsor's after-tax profits to be material factors in considering a sponsor's independence. Having considered these factors, the Listing Committee decided that the substance of the Current Business Relationship was not material enough to affect the sponsor's independence. As for the Perception Test, the Listing Committee endorsed the Division's view that it should be applied considering all relevant facts and circumstances of an individual case and in this case, the sponsor should be regarded as independent.

MEETING STATISTICS AND ACTIVITIES

50. The following meetings were held during the period covered by this report and in the preceding period.

Nature of Meeting	Number of Meetings		Average Number of Members in Attendance	
	2006	2005	2006	2005
Regular Meetings	53	52	9.5	9.4
Review Meetings (*excluding reviews by Listing Appeals Committee)	21*	22*	5.2	5.5
Disciplinary Meetings	19	23	5.4	6.3
Quarterly and ad hoc policy meetings	5	4	16.4	14.8
Total	98	101	-	-

APPROVAL OF NEW LISTING APPLICANTS

51. One of the principal items of business of the Committee's regular meetings is considering whether or not to approve new listing applications. These are considered on the basis of reports from the Division, which include a recommendation on whether or not to approve the listing application. In respect of each application considered by the Listing Committee it is usual for the Committee to approve the application, with or without the imposition of conditions, to reject the application or to defer a decision pending the submission of further information. Statistics in relation to listing applications handled by the Listing Committee are set out in the tables below.

Meetings at which IPO applications were considered	2006	2005
Meetings Within the Regular Schedule	51	42
Specially Convened Meetings	2	5

Listing Applications considered by the Listing Committee	2006	2005
Main Board	77	61
GEM	15	23
Total	92	84
Applications Approved		
Main Board	73	58
GEM	13	16
Total	86	74
Applications Rejected		
Main Board	1	1
GEM	2	0
Total	3	1
Decisions Deferred Pending Further Information		
Main Board	2	2
GEM	0	7
Total	2	9

Applications Subsequently Listed to Date of Report		
Main Board	62	38
GEM	12	6
Total	74	44

52. An appeal was made in respect of the decision by the Committee to reject a Main Board applicant. The appeal was successful and the applicant may resubmit its application for listing. As regards the rejection of two GEM applicants, one chose not to appeal while the other has sought a review of the decision.

53. The Division may also reject listing applications without the direct involvement of the Listing Committee. In the year under review two applications were rejected by the Listing Division. One of these decisions was upheld on review.

CANCELLATION OF LISTING OF LISTED ISSUERS

54. The power to approve the cancellation of listing of securities (“delisting”) rests with the Listing Committee. The procedures adopted for Main Board and GEM issuers differ:

- The delisting procedures for Main Board companies which involve three stages each of six months duration are set out in Practice Note 17 to the Main Board Listing Rules. A company placed in the third stage of the procedures has a deadline, normally of six months, within which to submit a resumption proposal. If it does not submit a proposal within that time (or if it submits one which is determined not to be viable) the company’s listing will be cancelled.
- GEM Rules 9.14 to 9.18 deal with the delisting of GEM companies but there is no Practice Note in relation to the delisting of GEM issuers. Long suspended GEM companies are given notice under the ambit of GEM Rules 9.14 to 9.18 of the Exchange’s intention to delist them. The companies are then provided with a deadline of six months within which to submit a valid resumption proposal or, if they fail to provide a valid proposal, to be delisted.

55. The Listing Committee’s approval is required to place a Main Board company into the third stage of the delisting procedures, to give a GEM company notice of intention to delist or to cancel the listing of a Main Board or GEM company. The Listing Committee’s decision to delist a Main Board or GEM issuer may be subject to review by the Listing (Review) Committee and, in turn, also the Listing Appeals Committee.

56. At its regular meetings, the Listing Committee:

- Approved one resumption proposal for a Main Board issuer.

- Approved placing five Main Board issuers in to the third stage of the delisting procedures. Except for one case, none of these decisions has been appealed against.
- Approved giving six GEM issuers notice of the Exchange's intention to delist them. Two of these decisions were appealed against and both decisions of the Listing Committee were upheld on review.
- Approved cancelling the listing of two Main Board issuers that had not submitted resumption proposals in accordance with Practice Note 17. Neither of these decisions was appealed against.
- Approved cancelling the listing of two GEM issuers that had not submitted resumption proposals. Neither of these decisions was appealed against.
- Approved cancelling the listing of two Main Board issuers after rejecting as not viable resumption proposals that had been submitted. One such decision was overturned on review by the Listing Appeals Committee and the resumption proposal was allowed to proceed subject to prescribed conditions being satisfied. As regards the other decision, the review remains outstanding.
- Approved cancelling the listing of three GEM issuers after rejecting as not viable resumption proposals that had been submitted. One of these decisions was not appealed against, the other two were appealed against and the Listing Committee's decisions were upheld on review.

57. The Exchange's policy in respect of handling long suspended companies was clarified last year. In the Feedback Statement on the Consultation on Continuing Listing Criteria and Related Issues, published on 7th February 2005 (the "Feedback Statement"), the Listing Division commented "The experience of the Listing Division over the last eighteen months also suggests that the timing, presentation and substance of resumption proposals for long-suspended companies frequently fall short of the Exchange's expectations. In particular this experience suggests that compliance with Rule 13.24 of the Main Board Listing Rules (Rule 17.26 of the GEM Listing Rules), formerly paragraph 38 of the Listing Agreement is best achieved if the applicant can present a clear, plausible and coherent proposal which meets or is close to the quantitative standards required for a new listing applicant under Chapter 8 of the Main Board Listing Rules." The Listing Committee supports these views and believes that it is important that market intermediaries and long suspended companies understand the Exchange's stance and take appropriate steps to comply with the substantive and procedural requirements.

58. It is clear from submissions made to the Listing Committee and the Listing Appeals Committee that issuers and their advisers understand the standard of preparation that is necessary but many applicants for review have not observed this guidance and thereby jeopardise the success of their applications. It should be now be abundantly clear to

long suspended issuers submitting resumption proposals that the Exchange will not tolerate a disregard for its procedural standards and that failure to comply will lead to delisting.

Suspension Policy

59. At the Policy Meeting held in January 2006, the Listing Committee noted that a lack of cooperation or responsiveness from listed issuers was a main cause for the prolonged suspension of a listed issuer and the lack of transparency in the process. The majority of such suspended listed issuers either delayed the provision of relevant information or provided incomplete and piecemeal information regarding the problem that led to the suspension. Without the full co-operation of the listed issuers, the Exchange would be denied information necessary to form a complete picture of the extent of the problems faced by a listed issuer. Furthermore, an appropriate regulatory response would be a balancing act of on the one hand ensuring that a suspended listed issuer is allowed to resume trading after investors are fully informed and, on the other hand, ensuring that the listed issuer's suspension is for the shortest possible period. To provide greater transparency about suspensions the Listing Committee supported the Listing Division considering whether or not to apply one or more of the following options; (a) the Exchange publishing the conditions imposed for resumption; (b) requiring the suspended issuer to publish a weekly update for temporary suspensions or a monthly or quarterly update for long suspensions; and/or (c) automatically invoking the delisting procedure if a security has been suspended for a prolonged period of time without the issuer taking steps to achieve resumption.

SPONSORS AND SUPERVISORY STAFF

60. Sponsors play an important role in the listing application process. They are the principal conduit of information about listing applicants to the Division which uses the information and representations received to prepare reports for the Committee with recommendations on whether to approve the listing application. It is therefore of the utmost importance that sponsors perform their role to the highest standards so as to facilitate the assessment of an application for listing.
61. The Committee has in three cases, in the current and previous year, either taken action or has indicated the action it is minded to take, primarily as a consequence of concerns about the sponsor's performance or capability to meet its obligations. Some of these cases are a result of co-ordinated efforts between the Exchange and the SFC's Enforcement Division. In one of these cases the Committee imposed conditions on the

approval of the continuation of the relevant firm's GEM sponsorship status. The sponsor concerned appealed against the decision of the Committee. Though the Listing Appeals Committee upheld the Committee's decision, it modified the conditions imposed.

62. The other two cases were considered by the Committee in two contested GEM sponsor reviews during the year. The first case concluded in conjunction with complimentary action taken by the Securities and Futures Commission resulted in the voluntary withdrawal of the firm, CSC Asia, for a period of 13 months from undertaking new sponsorships. In the second case, the Committee decided to continue the firm's GEM sponsorship status subject to conditions:

- that the firm demonstrated to the satisfaction of the Exchange that competent staff of an appropriate calibre had been retained;
- that the Exchange be provided with a report on the firm's internal systems and controls to be delivered by the corporate finance division of an independent firm of auditors (the Report); and
- that the firm submitted a detailed plan and undertaking for implementing the recommendations made in the Report to the satisfaction of the Exchange.

All of these steps must be completed to the satisfaction of the Exchange before the firm in question will be allowed to resume sponsorship work on an unconditional basis.

63. The above measures underscore the importance that the Exchange attaches to the role of sponsors. Under current arrangements the Committee approves GEM sponsors and their supervisors, and these matters are generally dealt with at the Committee's regular meetings. An analysis of GEM sponsor cases considered at the Committee's regular meetings is set out below.

	2006	2005
Meetings to consider GEM Sponsor cases	39	36
New Applications considered and approved	2	8
Annual Reviews considered	49	42
Extensions of period for review considered	8	7
Voluntary withdrawal from list of sponsors	5	6

OTHER REGULAR BUSINESS

64. At each regular meeting the Division provides the Committee with information on companies whose shares have been suspended from trading since the last regular meeting of the Committee. Each month the Committee receives an information paper on companies whose shares have been suspended for a prolonged period. This forms the basis for a monthly update that is published on the HKEx website in respect of long suspended companies and companies delaying the release of results announcements.

65. An analysis of other matters considered at regular meetings during the year is set out below:

Nature of decision/advice sought	Number of cases	
	2006	2005
Approval of Application for waiver from public float requirement (*waiver extended for 3 months)	1*	1
Approval of Application for waiver in connection with Model Code	-	1
Rejection of Application for limited waiver in relation to pre-emption rights and prior independent shareholder approval	1	1
Approval of proposed waiver of general effect from requirement to cancel repurchased shares	-	2
Application for waiver in connection with a share option scheme	1	-
Approval for a voluntary withdrawal of listing (including 2 cases (2004: 4 cases) involving a transfer from GEM to the Main Board)	18	11
Consideration of spin-off applications	6	4
Consideration of a proposal for a change in the domicile of the issuer	-	2
Approval of an issuer of structured products	3	8
Approval for listing of debt securities not delegated to the Head of Listing	7	9
Requests for pre-application guidance from potential IPO candidates	6	2

REVIEW MEETINGS

66. Excluding cases considered by the Listing Appeals Committee, the Committee considered 21 (2005: 25) requests for reviews of decisions made by the Division or Committee during the year, some of which related to decisions that had been made in the previous year. A significant proportion of review cases (ten) arose out of decisions made to reject resumption proposals as a part of the procedures to cancel the listings of issuers. Two such decisions were overturned on review by the Listing (Review) Committee and one other was overturned on review by the Listing Appeals Committee. The listed issuers in these three cases were allowed to proceed with their resumption proposals. Two review meetings centred on the Division's earlier decisions to reject two listing applications. Both decisions were upheld by the Committee. The Listing

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(Review) Committee also reviewed two decisions made by the Committee to reject listing applications. One such decision was upheld and the other overturned on review.

67. Details of the reviews during the current year are set out in the tables below.

Appeal Committee	Decision made by	Nature of decisions	Number of cases	Outcome
Listing Appeals Committee	Listing (Disciplinary Review) Committee	Disciplinary decision and sanctions imposed	1	Earlier decision endorsed
	GEM Listing Committee	Conditions attached to renewal of GEM Sponsor status	1	Earlier decision modified
	Listing (Review) Committee	Viability of Resumption Proposal	1	Earlier decision overturned
Listing (Review) Committee	Listing Committee	Viability of Resumption Proposal	4	Earlier decision endorsed
	Listing Committee	Viability of Resumption Proposal	2	Earlier decision overturned
	Listing Committee	Applicability of PN 15 to proposed undertaking	1	Earlier decision overturned
	Listing Committee	Rejection of listing application	1	Earlier decision endorsed
	Listing Committee	Rejection of listing application	1	Earlier decision overturned
	Listing Committee	Conditions attached to new listing application	1	Earlier decision modified
GEM Listing (Review) Committee	GEM Listing Committee	Viability of Resumption Proposal	3	Earlier decision endorsed
Listing Committee	Listing Division	Suitability of sponsor	1	Earlier decision modified
	Listing Division	Maintenance of public float requirement	1	Earlier decision endorsed
	Listing Division	Proposed sponsor not regarded as independent	1	Earlier decision endorsed
	Listing Division	Rejection of waiver from Accountant Report disclosure	1	Earlier decision modified
	Listing Division	Rejection of listing application	1	Earlier decision endorsed
GEM Listing Committee	Listing Division	Rejection of listing application	1	Earlier decision endorsed
	Listing Division	Viability of Resumption Proposal	1	Earlier decision endorsed
	Listing Division	Suitability of sponsor	1	Earlier decision modified

68. As at the end of the period covered by this report, excluding disciplinary matters, nine cases were under review as follows:

Appeal Committee	Decision made by	Nature of decisions	Number of cases
Listing Appeals Committee	Listing (Review) Committee	Viability of Resumption Proposal	2
Listing (Review) Committee	Listing Committee	Viability of Resumption Proposal	2
Listing (Review) Committee	Listing Committee	Maintenance of Public Float	1
GEM Listing (Review) Committee	GEM Listing Committee	Rejection of Listing Application	1
Listing Committee	Listing Division	Viability of Resumption Proposal	1
GEM Listing Committee	Listing Division	Waiver Application	1
GEM Listing Committee	Listing Division	Suitability of Sponsor	1

DISCIPLINARY MEETINGS

69. A disciplinary matter is generally dealt with at a specially convened meeting of the Committee. Written representations are central to the process. A typical case will involve two rounds of written submissions from the Division and from those alleged to have breached the Rules (the listed issuer and/or its directors). At the hearing the Division and those against whom action is being brought, or their legal representatives, are permitted to make oral representations to supplement their written submissions and Committee members may ask questions of any party or its legal representative present at the meeting. The parties or their legal representatives may thereafter make closing submissions.

70. On 27th May 2005 the Court of Appeal ruled that the Listing (Disciplinary) Committee sitting in a disciplinary hearing constitutes a “court” for the purposes of Article 35 of the Basic Law. An appeal was made to the Court of Final Appeal and this was heard in March 2006. Pending the result of that Court of Final Appeal hearing, the Committee took steps to ensure that it acted in accordance with the Court of Appeal judgment. The restrictions previously imposed on the length of oral submissions and on full legal representation at the hearing were lifted. The greater involvement of lawyers in disciplinary meetings has generally had the effect of lengthening proceedings and we have also witnessed an increase in procedural challenges interrupting the disciplinary process.

71. The Court of Final Appeal overturned the decision of the Court of Appeal in a

judgement handed down on 6th April 2006. The implications of that decision on the future design of our processes are still being assessed. However, the Committee has, following a preliminary assessment, noted the following points emerging from the judgement and a number of observations are possible at this stage.

72. First, the Court stated plainly that the Committee in performing its disciplinary role was not a Court for the purposes of Article 35 of the Basic Law. However, in the judgement of Mr. Justice Ribeiro PJ at paragraph 91 he noted that it was common ground between the parties that the Committee is bound to observe the common law principles of fairness when discharging this burden. The Committee acknowledges this obligation and has and will continue to adopt procedures which ensure the fair disposal of business to all parties which are appropriate to the circumstances of each case.
73. In doing so, we would observe that the established and overriding principle underpinning the Listing (Disciplinary) Committee's work is that proceedings before it are intended to be informal. Against this background and the accepted requirement of fairness in relation to procedural matters, the Committee will continue to entertain and consider any procedural points that are legitimately raised. However, we take the position that such applications are likely to significantly delay the final disposal of the matter and only increase costs to the party concerned and should not therefore be made lightly. Further, procedural challenges which lack substance and merit are not, in our view, consistent with the objective of an established informal process designed to deliver an early resolution of disciplinary business in the interests of all parties and the market. The Committee has little interest in being diverted from its task of determining disciplinary matters in a manner which is efficient and effective by engaging in unproductive debates on procedural issues. We will take a dim view of those applications which appear to have no other purpose than to delay the process and take appropriate action where it appears that the application is being made simply for tactical reasons. The Listing (Disciplinary) Committee wants to focus its attention on the real and substantive issues arising in the cases presented to it.
74. The second major point for present purposes concerns the role of legal advisers. The learned judge also noted (from paragraph 108 of his judgement onwards) that limiting the role of counsel depending on the circumstances may involve no breach of the principle of fairness referred to above. In essence it appears that the level to which lawyers should be involved depends upon the circumstances of each case and involves an assessment of the proportionality of any restrictions imposed.
75. Disciplinary proceedings are intended to be conducted primarily in writing and no restrictions apply to the level to which lawyers may be engaged to advise and assist

parties involved in the disciplinary process prepare their submissions. Legal advisers are also present to give advice at the hearing should the parties require it. When it comes to legal representation at the hearing the Committee continues to believe that there are considerable advantages to promoting direct dialogue between the Committee and the parties concerned rather than being addressed through the medium of skilled advocates. This approach has in the past we believe enabled the Committee to obtain information necessary for the making of its decision directly from those with a personal knowledge of the facts with which the Committee is concerned. Thus it is anticipated that in the vast majority of cases the role of legal advisers at the hearing will be limited as described above but nonetheless their influence will be sufficient to ensure the fair disposal of business.

76. The Committee does acknowledge however that there may, in some cases, and in the interests of fairness be a need for an enlarged role for the lawyers engaged by the parties in terms of their making of oral submissions and responding to questions from the Committee. In our experience however, we believe that those cases would be very much the exception rather than the rule.
77. To help utilize its existing resources to the best regulatory effect, the Division focuses its resources on pursuing the most blatant and serious breaches of the Listing Rules. These tend to be cases where some form of public sanction will be sought against the listed company and/or directors.
78. Over the past year, the Listing Committee has heard a number of cases arising from serious breaches of the Listing Rules. In one such case concerning an “H” share listed company, Luoyang Glass, the Committee found the Company in breach of a number of the rules in the form effective prior to March 2004 including failure to comply with reporting, announcement and independent shareholder approval procedures in relation to connected transactions. The Company received a public censure and a number of its former directors received public censures or public statements involving criticisms for their breach of the Director’s Undertaking.
79. In addition to receiving a public censure, the Committee took the relatively rare step of stating publicly that the retention of office by certain individuals was prejudicial to the interests of investors. This is the first time the directors of an “H” share company have received this sanction. Follow-up action to pursue and give effect to the Committee's view is continuing.
80. In addition to imposing public and private sanctions to publish past conduct by listed issuers and their management, in a number of cases the Committee has deployed its

powers to require a listed issuer to take remedial action to rectify breaches of the rules. Such directions have, for example, involved the obligation to retain external assistance in the creation or revision of compliance structures. The Committee have also required directors to undergo training in order to assist directors understand and improve their performance in compliance matters.

81. In one prominent case involving an investment company, China Treasure (Greater China), the Committee concluded that the Company was in breach of the rules in that (a) it failed to obtain prior shareholder approval of a connected transaction; and (b) failed to maintain a reasonable spread of investments, as required by investment company listed under Chapter 21 of the Listing Rules. A number of the Company's directors were found to be in breach of their undertaking to the Exchange in that they had caused or failed to prevent the company's breaches and in particular, they had failed to ensure that the Company had a reasonable spread of investments within its portfolio.
82. In addition to publicly censuring the company and some of the directors, the Committee issued a direction that the breach of Chapter 21 be remedied by the Company to the satisfaction of the Listing Division within a period of one month from the final determination of the matter. Consequently the company was required (and did) undertake remedial action to correct a spread of investments held in contravention of the Rules which exposed shareholders to the risk associated with a concentrated portfolio.
83. The Committee has continued to deploy the fast-track approach in relation to some disciplinary matters, for example, the late publication of accounts. A company that is late in publishing its accounts has breached the Listing Rules and the main issue to consider is the sanction to be imposed on the company and /or its directors having regard to any mitigating circumstances. Under the fast track approach, provided certain conditions are met, public sanctions will be imposed on the company and not the directors. Six fast-track cases were dealt with in the period whilst nine were dealt with in the same period last year.
84. Some disciplinary matters are dealt with at regular meetings of the Committee. This is especially the case where a proposal to settle a disciplinary matter with an agreed sanction is presented to the Committee for endorsement. Disciplinary matters were dealt with at five (2005: seven) regular meetings of the Committee and all resulted in a public sanction.
85. It is important to stress that while the Committee is prepared to consider settlement proposals this approach is encouraged against the background that public outcomes are

sought which are justified on the basis of the Listing Rules and the facts of the particular case. From the regulatory perspective disposal of actions through this mechanism enables us to achieve quick and effective disciplinary results and this enables us to then utilize our resources more efficiently and to focus on cases which may have a significant regulatory impact.

86. The disciplinary actions and resulting sanctions against GEM sponsors are discussed in paragraphs 61 to 62 of this report. An analysis of the nature of the other alleged breaches of the Listing Rules considered at disciplinary and regular meetings is set out below.

Nature of Alleged breach of Listing Rules	Number of :	
	Meetings ⁶	Cases
Failure to publish annual accounts and interim accounts within prescribed deadlines	10	9
Failure to disclose price sensitive information or significant advances to entities.	6	6
Failure to obtain shareholder approval for connected or other transactions	11	11
Failure to disclose connected transaction or other information	3	3
Failure to respond to enquiries about price and volume movements	1	1
Total	31	30

Note: For the purposes of the above analysis cases involving more than one alleged breach of the Listing Rules are classified according to the most serious alleged breach of the Listing Rules.

87. An analysis of the outcome of the above cases is set out in the table below:

Outcome	No. of Cases
Public Sanction – published in period	19
Public Sanction – awaiting publication	5
Private Sanction	2
No sanction	2
Cases subject to further appeal	2
Total	30

88. A number of the cases considered by the Committee during the year illustrate the importance of issuers' taking steps to ensure that they have adequate and appropriate systems in place to ensure that they can meet their obligations to report financial

⁶ The total number of meetings include settlement cases heard at regular meetings and cases where although the disciplinary meetings were held in the previous year, they were decided in the current year.

information in a timely manner. In addition, certain cases have emphasised the Exchange's views on senior management responsibility with regard to compliance systems.

89. Our headline message is that the Exchange expects directors, as senior management, to take responsibility for ensuring that listed companies identify Listing Rule compliance risk, have appropriate systems and controls in place to mitigate these risks and ensure that the systems and controls work in practice. Where deficiencies are uncovered prompt remedial action will be important. Some listed companies expect that when they self-report compliance failings that there should be no further regulatory action. Self reporting cannot automatically lead to no sanction but it is a factor we consider, in the context of the facts and circumstances of each case, to mitigate the level of sanction. Similarly the level of co-operation shown in helping the Exchange establish the facts is a factor taken into account in mitigation.

POLICY DEVELOPMENT

90. The Committee aims to hold policy meetings on a quarterly basis. In the course of the period the Committee held policy meetings on 11th July 2005, 17th October 2005, 8th December 2005, 23rd January 2006 and 27th April 2006.
91. Policy matters are generally dealt with at policy meetings of the Committee as this helps to ensure broad participation from the Committee membership. Nonetheless, it is sometimes necessary for issues to be considered at regular meetings of the Committee. These items are normally in the nature of reporting back on minor revisions to policy previously agreed at quarterly meetings or amendments to the Listing Rules which had previously been approved at meetings which were minor in nature but which, nonetheless, required the Committee's approval.
92. We summarise in the table below the significant matters considered at the Committee's quarterly policy meetings.

Significant matters considered at Listing Committee Policy meetings

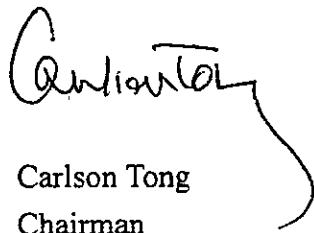
July 2005	<p>Procedures for Review of Director’s Undertaking – Convictions Falling Under Provisions of the Rehabilitation of Offenders Ordinance or Comparable Legislation – Reporting Back</p> <p>Number of Prospectuses Made Available to the Public in New Listing Applications</p> <p>Proposal for a General Waiver from Strict Compliance with Rule 10.07 and 10.08 of the Main Board Listing Rules for Companies Transferring from GEM to the Main Board</p> <p>Main Board Issuers – Abolition of Paid Announcements in the Newspapers and Related Matters</p> <p>Rules 13.13 to 13.16 of the Main Board Listing Rules (Advances to Entities); Application of Rules 13.13 to 13.15 of the Main Board Listing Rules to Trade Receivables; and Application of the Notifiable and Connected Transactions Provisions of the Listing Rules to Listed Securities Houses</p> <p>Annual Review of GEM Sponsors</p> <p>Publicity of the Imposition of Conditions on a Sponsor or Removal from the List of Sponsor Firms</p> <p>Impartiality and Independence of Sponsors – Members of Sponsor Group Acting as Auditors</p> <p>Reporting Accountants Assistance to Sponsors in IPOs Under Practice Note 21</p> <p>Mandatory Share Consolidation</p> <p>Policy paper on the Division’s recent treatment of Anti-Dilution Rights</p> <p>Paper on convertible notes</p>
October 2005	<p>Companies (Amendment) Ordinance 2005 – Definition of “Subsidiary”: Amendment to Main Board and GEM Listing Rules</p> <p>Parameters for granting waivers from strict compliance with the requirements of Paragraph 4 of Practice Note 18 of the Listing Rules in relation to offer mechanisms</p> <p>Proposed Housekeeping Rule Amendments to the Main Board and GEM Listing Rules</p> <p>Disclosure by Listed Issuers of Issues of Securities</p> <p>General Mandate and Related Issues</p> <p>Consultation with the Listing Committee Regarding Issues arising from the Proposed Sale of Domestic Shares by Domestic Shareholders of H-shares companies</p> <p>Formation of Joint Ventures by Issuers for Property Acquisitions and Developments and Awarding of Construction Contracts</p> <p>New structure for listing decision-making: Consultation conclusions and proposed rule amendments</p> <p>Report on the Progress of the GEM Review</p> <p>Application of Rules 13.13 to 13.15 Trade Receivables: Application of Notifiable and Connected Transaction Rules to Listed Securities Houses</p> <p>Main Board Issuers: Abolition of Paid Announcements in the Newspapers and Related Matters</p>

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	<p>Proposal to Extend the “PRC Governmental Body” to Chapter 3A of the Listing Rules and Chapter 6A of the GEM Listing Rules</p> <p>Review of Sponsors’ Independence under Rule 3A.07(9) of the Main Board Listing Rules and Rule 6A.07(9) of the GEM Listing Rules</p> <p>Publication of a reconciliation of quarterly results to Hong Kong or International Financial Reporting Standards</p> <p>Issues arising from the requirements for Qualified Accountant</p> <p>The Code on Corporate Governance Practices Implementation Survey July 2005</p>
December 2005	<p>New Structure for listing decision-making: Revised consultation conclusions and proposed rule amendments</p>
January 2006	<p>Proposed Housekeeping Rule Amendments to the Main Board and GEM Listing Rules previously considered by the Listing Committee on 17 October 2005 – Reporting back</p> <p>Publication of a reconciliation of quarterly results to Hong Kong or International Financial Reporting Standards</p> <p>Policy implications of listing gaming companies</p> <p>Review of Requirements on Profit Forecasts</p> <p>Review of profit record requirement under Rule 8.05(1) – implications arising from accounting standards that require fair value adjustments to be reflected in the income statement</p> <p>Policy for streamlining the transfer of GEM companies to the Main Board of The Stock Exchange of Hong Kong Limited</p> <p>Follow up on the Policy Framework for the listing of new applicants under Rule 8.05B(3) – Joint Controlled Entities</p> <p>Requirements for Land Use Title of Properties Situated in the Mainland of the People’s Republic of China – review of practice and experience</p> <p>Formation of Joint Ventures by Listed Issuers for Property Acquisitions and Developments – consideration of the basis for a waiver of general application</p> <p>Non-Competition Undertakings and Delineation Agreements</p> <p>Review of the Division’s Approach to Pre-vetting Public Documents of Listed Issuers</p> <p>Review of Suspension Policy</p> <p>Issues arising from the requirements for a Qualified Accountant</p>
April 2006	<p>Main Board Issuers: Abolition of Paid Announcements in the Newspapers and Related Matters – Publication of Exposure Conclusions and approval of rule amendments</p>

CONCLUSION

93. I would again like to take this opportunity to thank all my colleagues on the Committee during the last year for the significant contribution they have willingly made both over the last year but also in earlier years. I should also like to acknowledge the generous support of members' employers without which the Committee could not operate as effectively.
94. Our thanks are also due to Committee Secretariat in the Listing Division for their administrative assistance and guidance during the year.
95. This report was approved for submission to the boards of SEHK and HKEx on 13th July 2006.



Carlson Tong
Chairman

Listing Committee

1. Members are appointed to the Listing Committee by the Board of the Exchange based on nominations that have been made by the Listing Nominating Committee. Prior to 3rd February 2006, the Listing Nominating Committee consisted of the Chief Executive of the Exchange, two members of the Board of HKEx and the Chairman and two executive directors of the SFC. Effective on 3rd February 2006, the composition of the Listing Nominating Committee has been changed such that the HKEx representatives are three non-executive members of the Board of HKEx rather than two members of the Board of HKEx and the Chief Executive of the Exchange.

2. For the period covered by this report, the Composition of the Main Board and GEM Committees is prescribed by the relevant set of Listing Rules and is set out below.

Category:	Main Board	GEM
Exchange Participants	6	4
Listed Company	6	4
Market Practitioner & Users (note)	12	12
Ex Officio (note)	1	1
Total Members	25	21

Note: Market practitioners and users include lawyers, accountants, fund managers and others well versed in market practice and the Listing Rules.

The Chief Executive of HKEx is the ex officio member. The Chief Executive of SEHK is the designated alternate.

On the expiry of the current term of office of the members, rule amendments came into effect on 19th May 2006 to expand each of the Main Board and GEM Listing Committees to comprise at least 28 members; and change the composition of each of the Main Board and GEM Listing Committees to include at least eight investor representatives, the HKEx Chief Executive and nineteen members who are a suitable balance of listed issuers and market practitioners including lawyers, accountants, corporate finance advisers and brokers.

3. Members are appointed annually. Unless re-appointed their term of office ends no later than 30 days after the first board meeting of SEHK following the annual general meeting after members have been appointed. Consequently the term of office of members covered by this report commenced on 14th May 2005 and ended on 18th May 2006. In the previous period members were appointed for the 54 weeks ended 13th May 2005.

4. To provide consistency and continuity across the Committees most members are appointed as members of the GEM and Main Board Committees. Reflecting that committee's larger size certain members were appointed to the Main Board Committee only. Since 19th May 2006, rule amendments came into effect to expand each of the GEM and Main Board Committees to comprise at least 28 members and they have identical members. The rule amendments also increase the maximum term for the members of the GEM and Main Board Committees to six years.
5. The overlap in membership enables the two Committees to be operated as one committee for most purposes and much of the routine business of the Committees is conducted at combined meetings. This approach is not adopted for disciplinary meetings nor is adopted for meetings at which decisions of the Listing Division or the Listing Committee are reviewed.

Listing Appeals Committee

6. The Listing Appeals Committee consists of three members of the HKEx Board: the Chairman of HKEx, who chairs the committee; one member appointed by the Chairman as deputy chairman of the Committee for the term of his office as a director of HKEx; and one member appointed by the Chairman when the Committee is called upon to consider a case. Appropriate modifications to membership are made where conflicts of interest arise.
7. A Memorandum of Understanding was entered into between SEHK and the SFC on 6th March 2001 pursuant to which the SEHK continued to be responsible for the day-to-day administration of all listing-related matters. It also provided for decision-making power to be delegated by the Board of SEHK.
8. The Board of SEHK retains the power to make and amend its Listing Rules subject to the approval of the SFC. All of its other powers and functions in respect of all listing matters are discharged by those to whom the powers have been delegated including the Listing Committee, the Listing Division and the Chief Executive of the Exchange. This arrangement is reflected in the Listing Rules (see Main Board Rule 2A.01 and GEM Rule 3.01).
9. The arrangements in place recognise as a practical matter it is not possible for formal decision making to be taken by the Listing Committee on the very substantial number of matters arising from the day-to-day administration of the Listing Rules.
10. Equally to avoid jeopardising the independence of the Listing Committee it is not desirable for the Committee to become involved in an executive role directing the day-to-

day affairs of the Listing Division. Accordingly the Listing Committee has reserved the power to take those decisions that are of material significance for the listed companies, sponsor firms and individuals concerned.

11. The relevant decisions include: granting approval for listing of new equity applicants; approval of the cancellation of listing; approval of GEM Sponsor firms and their supervisory staff; the finding of a breach of the Listing Rules and the imposition of disciplinary sanctions or remedial conditions; the endorsement, variation or modification of decisions made by the Listing Division and in some circumstances the Listing Committee on application for a review; the approval of a specified category of waiver; approval of significant policies and Listing Rule amendments.

12. In all other areas the Listing Division interprets, administers and enforces the Listing Rules, subject to the review of the Listing Committee under procedures set out in the Listing Rules. For each decision to be made by the Listing Committee the Listing Division will make a recommendation and prepare report with suitable analysis to assist Committee members reaching an informed decision on the relevant matter.

13. The Secretary to the Committee, who is also Head of the Listing Division, sets the agenda of Listing Committee meetings and determines the priorities of Listing Division and the allocation of its resources. Decisions of the Listing Committee, particularly in a policy context often have an operational impact for the Listing Division. However, the Listing Committee does not determine the strategic objectives, or the annual operating plan and budget or the level of resources of the Listing Division. Similarly the Listing Committee is not involved in the appointment and terms and conditions of Listing Division staff. These operational matters are handled by the staff of HKEx. The Board of HKEx approves the Exchange's strategic plans and its annual operating plan and budget including that of the Listing Division.

Mode of Operation

14. The principal mode of operation of the Committee is through meetings at which a quorum of members is present. Meetings held by the Committee fall into the following categories: regular meetings, generally held each week; review meetings, to review decisions made by either the Committee or Division; disciplinary hearings, to consider disciplinary action brought by the Division and also including disciplinary review meetings, where the Committee reviews decisions taken at disciplinary meetings of the Committee; and policy

meetings, at which policy issues are discussed. The quorum for meetings of the committee is five members present in person. Where a Committee meeting is convened to review a decision of its own or of the Division the Chief Executive may not count in that quorum.

15. A pooling arrangement is operated to help reduce the workload involved for individual members attending regular meetings, and also to provide a pool of members from which to draw if a decision made by the Committee is required to be reviewed at a subsequent meeting. Under the pooling arrangements all members, except the Chairman, Deputy Chairman and the ex officio member are “paired” with another member. Under the pooling arrangement a member will be designated as the primary or secondary member for a particular week’s regular meeting, and the member with whom he or she is paired will be designated as secondary or primary as appropriate. Members are designated as primary or secondary on a fifty-fifty basis. Thus, over the course of the year, a member would be on primary for approximately half of the Committee’s regular meetings. The pooling arrangement does not apply to disciplinary, review and policy meetings.

16. Regular meetings of the Listing Committee are normally held each week with breaks at Lunar New Year, Easter, Christmas and New Year. If the volume of work so demands, additional regular meetings are scheduled. Disciplinary meetings and Review meetings, to consider reviews of decisions reached by the Committee or the Division are held as required. Policy meetings are normally held quarterly with supplementary meetings as necessary.

Handling Conflicts of Interest

17. The Rules governing the proceedings of the Listing Committee incorporate specific requirements relating to the handling of conflicts of interests. These provisions require that a member who is in any way, whether directly or indirectly, materially interested in a matter to be discussed at a meeting must declare any such material interest to the Secretary prior to the meeting or to those present at the meeting and, whenever appropriate and practicable, return all relevant papers to the Secretary as soon as he becomes aware of the conflict. If the member attends the meeting at which the matter is to be considered he must leave the meeting immediately when such matter comes up for discussion and only return after it has been dealt with. The arrangements preclude a member with a material conflict of interest from participating in the deliberation of the issue or counting as part of the quorum present at the meeting. The minutes of Listing Committee meetings record all declared conflicts of interest.

APPENDIX II – LISTING COMMITTEE MEMBERS

Mr Moses Cheng – Chairman from 13th May 2005
Senior Partner, P.C. Woo & Co
First Appointed: 4th December 1996
Appointment Category: Listed Company
Meeting attendance: 2006 – 32; 2005 – 33

Mr Carlson Tong – Deputy Chairman from 13th May 2005
Partner in Charge of Audit, KPMG China & Hong Kong
First Appointed: 16th November 2001
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 41; 2005 – 28

Mr V-Nee Yeh
Chairman, Hsin Chong Construction Group Limited
First Appointed: 4th December 1996
Appointment Category: Listed Company
Meeting attendance: 2006 – 53; 2005 – 52

Mr Anthony Lo
Managing Director, Advantage Group Limited
First Appointed: 4th November 1998
Appointment Category: Listed Company
Meeting attendance: 2006 – 32; 2005 – 30

Mr Peter Wong
Managing Director, Tai Fook Securities Co Ltd
First Appointed: 4th November 1998
Appointment Category: Exchange Participant
Meeting attendance: 2006 – 30; 2005 – 33

Mrs Angelina Lee
Partner, Woo, Kwan, Lee & Lo
First Appointed: 7th August 1999
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 22; 2005 - 18

Mr Henry Cheong
Chairman & CEO, Worldsec Brokerage Limited
First Appointed: 16th May 2002
Appointment Category: Exchange Participant
Meeting attendance: 2006 – 36; 2005 – 31

APPENDIX II – LISTING COMMITTEE MEMBERS

Mr Roger Best
Partner, Deloitte Touche Tohmatsu
First Appointed: 16th May 2003
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 33; 2005 – 36

Mr Stephen Hui
Group Managing Director, OSK Asia Holdings Ltd
First Appointed: 16th May 2003
Appointment Category: Exchange Participant
Meeting attendance: 2006 – 34; 2005 – 35

Mr Ernest Ip
Partner, PricewaterhouseCoopers
First Appointed: 16th May 2003
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 29; 2005 – 33

Mr Alex Ko
Chairman & CEO, Goldbond Capital Holdings Limited
First Appointed: 16th May 2003
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 44; 2005 – 51

Mr Allan Lam
Senior Executive Vice President, Templeton Asset Management
First Appointed: 16th May 2003
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 26; 2005 – 29

Mr Raymond Lee (Main Board Only)
Deputy Chairman and Executive Director, Dickson Concepts (International) Limited
First Appointed: 16th May 2003
Appointment Category: Listed Company
Meeting attendance: 2006 – 27; 2005 – 30

Mr Gage McAfee
Managing Director, GE Asia Pacific Capital Technology Fund
First Appointed: 16th May 2003
Appointment Category: Market Practitioner and User
Meeting attendance: 2006 – 39; 2005 – 61

APPENDIX II – LISTING COMMITTEE MEMBERS

Mr Frank Slevin

Managing Director, Chief Operating Officer, Asia Pacific Investment Banking, Citigroup
Global Markets Asia Limited

First Appointed: 16th May 2003

Appointment Category: Exchange Participant

Meeting attendance: 2006 – 24; 2005 – 23

Mr David Stannard

International Managing Partner, Asia, Norton Rose

First Appointed: 16th May 2003

Appointment Category: Market Practitioner and User

Meeting attendance: 2006 – 28; 2005 – 22

Mr David Sun

Chairman and Country Managing Partner, Ernst & Young

First Appointed: 16th May 2003

Appointment Category: Market Practitioner and User

Meeting attendance: 2006 – 17; 2005 – 24

Mr Tony Tsoi

Chief Executive Officer, Varitronix International Limited

First Appointed: 16th May 2003

Appointment Category: Market Practitioner and User

Meeting attendance: 2006 – 57; 2005 – 69

Mr. Stephen Hunt

Deputy Chairman, Cathay International Holdings Limited

First Appointed: 5th November 2004

Appointment Category: Market Practitioner and User

Meeting Attendance: 2006 – 49; 2005 – 35

Mr. Michael Lee (Main Board Only)

Managing Director, Hysan Development Company Limited

First Appointed: 5th November 2004

Appointment Category: Listed Company

Meeting Attendance: 2006 – 34; 2005 – 24

Mr. Roy Chen

Executive Director, Sterling Enterprises Limited

First Appointed: 13th May 2005

Appointment Category: Market Practitioner and User

Meeting Attendance: 2006 – 25; 2005 – n/a

APPENDIX II – LISTING COMMITTEE MEMBERS

Mr. Peter Greenwood
Director and Company Secretary
CLP Holdings Limited
First Appointed 13th May 2005; Resigned 28th August 2005
Appointment Category: Listed Company
Meeting Attendance: 2006 – 12; 2005 – n/a

Mr Paul Chow
Chief Executive, Hong Kong Exchanges and Clearing Limited
Ex Officio member
Meeting attendance: 2006 – 42; 2005 - 41

Mr Patrick Conroy
Chief Executive, The Stock Exchange of Hong Kong Limited
Alternate to ex officio member from 21st June 2004
Meeting Attendance: 2006 – 0; 2005 – 1

APPENDIX III – ATTENDANCE RECORDS

RECORD OF MEETING ATTENDANCE – 2006

	Regular		Policy		Disciplinary		Review	
	No.	%	No.	%	No.	%	No.	%
Mr Moses Cheng	26	53.1%	4	80.0%	2	11.8%	0	0.0%
Mr. Carlson Tong	30	61.2%	5	100.0%	2	13.3%	4	36.4%
Mr V-Nee Yeh	40	160%	4	80.0%	4	25.0%	5	62.5%
Mr Anthony Lo	22	91.7%	3	60.0%	3	15.0%	4	36.4%
Mr Peter Wong	15	62.5%	4	80.0%	5	31.3%	6	35.3%
Mrs Angelina Lee	14	58.3%	3	60.0%	2	16.7%	3	42.9%
Mr Henry Cheong	16	66.7%	4	80.0%	8	44.4%	8	53.3%
Mr Roger Best	17	70.8%	4	80.0%	7	53.8%	5	71.4%
Mr Stephen Hui	21	87.5%	4	80.0%	7	41.2%	2	15.4%
Mr Ernest Ip	19	79.2%	3	60.0%	4	28.6%	3	27.3%
Mr Alex Ko	22	91.7%	5	100.0%	9	56.3%	8	72.7%
Mr Allan Lam	14	58.3%	2	40.0%	4	20.0%	6	42.9%
Mr Raymond Lee	16	66.7%	3	60.0%	4	33.3%	4	40.0%
Mr Gage McAfee	24	100.0%	5	100.0%	8	42.1%	2	18.2%
Mr Frank Slevin	7	29.2%	3	60.0%	7	38.9%	7	41.2%
Mr David Stannard	7	29.2%	4	80.0%	7	43.8%	10	83.3%
Mr David Sun	10	41.7%	3	60.0%	1	7.1%	3	21.4%
Mr Tony Tsoi	42	175.0%	1	20.0%	8	44.4%	6	75.0%
Mr Stephen Hunt	26	108.3%	5	100.0%	8	42.1%	10	62.5%
Mr Michael Lee	21	87.5%	4	80.0%	2	18.2%	7	77.8%
Mr Roy Chen	14	58.3%	3	75.0%	5	25.0%	3	15.8%
Mr Peter Greenwood	7	87.5%	1	50.0%	0	0.0%	4	100.0%
Mr Paul Chow	37	75.5%	5	100.0%	-	-	-	-

Notes: For regular meetings percentage attendance is calculated based on a member attending half the meetings in the period in accordance with the pooling schedule. A percentage in excess of 100 indicates a member attending more meetings than allocated under the pooling schedule. For the chairman, deputy chairman and the Chief Executive the percentage is calculated based on total number of meetings in the period.

For review and disciplinary meetings percentage attendance is based on the number of meetings a member was eligible to attend having regard to potential conflicts of interest and whether the member had attended the meeting reaching the decision that was being reviewed. The members' unavailability due to other commitments on a scheduled date has not been taken into account in the table above. The Chief Executive does not participate in review and disciplinary meetings.