

JOINT PRESS RELEASE

Joint Press Announcement in relation to the review of the GEM Listing Rules and the grant of waivers in respect of matters under the GEM Listing Rules pending completion of such review

The Securities and Futures Commission (“SFC”) and The Stock Exchange of Hong Kong Limited (the “Exchange”) attach great importance to the Growth Enterprise Market (the “GEM”) as a market to raise funds for the business development of growth enterprises.

It was the original intention of the SFC and the Exchange that the GEM Rules be reviewed within six months from the launch of the market to take into account experience gained to date. With a view to ensure the competitiveness of the GEM, it has been agreed between the SFC and the Exchange that this review be conducted as soon as possible before the end of the six months period. In the meantime, the SFC and the Exchange have agreed the relaxation of certain requirements currently imposed on listing applicants/issuers and their shareholders under the GEM Rules pending finalisation of the rule review.

The SFC notes that compliance with certain requirements of the GEM Rules has been waived by the Exchange in a number of individual cases. It is recognised that the Exchange has granted these waivers in order to develop the GEM and to compete with other markets. However, it is acknowledged that the lack of transparency associated with such waivers has given cause for public concerns.

Having regard to the Exchange’s intention to ensure the success and competitiveness of the GEM and the SFC’s regulatory concerns, and with a view to ensuring a level playing field and transparency in the application of the GEM Rules in the meantime, the SFC and the Exchange have agreed the following:

- 1. Management shareholders moratorium** : The lock-up period referred to in Rule 13.16 of the GEM Rules applicable to initial management shareholders is reduced from two years to six months provided that no controlling shareholders (as such term is defined in the GEM Rules) are allowed to dispose of any relevant securities in the second six months period after listing if such disposal would result in the controlling shareholder or the group of persons constituting the controlling shareholder ceasing to have control over 35% of the voting powers at general meetings of the issuer.
- 2. Active business pursuits** : The 24 months “active business pursuits” referred to in Rule 11.12 of the GEM Rules is reduced to at least 12 months of “active business pursuits”. If the issuer concerned has a longer period of business pursuits, disclosures in its listing document should cover the full period subject to a 24 months maximum.

- 2 -

3. **Accountants' report** : The two financial years accountants' report referred to in Rule 7.03 of the GEM Rules is reduced to at least 12 months accountants' report corresponding to the minimum 12 months "active business pursuits" mentioned in paragraph 2 above. If the issuer concerned has carried on business for more than such 12 months period, the accountants' report should be made up for and cover the full period of its operation up to the maximum of two financial years.
4. **Share options provisions:** Rule 23.03(2) of the GEM Rules which sets out the limit on the grant of share options is modified as follows:
- 4.1 Subject to 4.3 below, shareholders of a GEM issuer may authorise directors to grant options under outstanding share option schemes entitling grantees to exercise up to an aggregate of 10% of the issued shares of the company from time to time (the "General Mandate Limit"). Such general mandate may be renewed if approved by shareholders in general meetings.
- 4.2 Subject to 4.3 below, an issuer may issue share options to specified participants over and above the General Mandate Limit if such grant is specifically approved by shareholders in general meetings.
- 4.3 The total number of shares which may be exercised under all outstanding share option schemes of an issuer must not exceed 30% of its total issued shares from time to time.
- 4.4 The above modifications to Rule 23.03(2) are allowed subject to the additional requirements to Rules 23.03(3) and 23.08 as set out in paragraph 4.5 and 4.6 below.
- 4.5 Regarding Rule 23.03(3) - *Additional requirements on grant of options to connected persons:*
- (i) Any grant of options to a connected person (as such term is defined in the GEM Rules) must be approved by the independent non-executive directors of the issuer.

.../3

- 3 -

- (ii) Where options are proposed to be granted to a connected person who is also a substantial shareholder (as such term is defined in the GEM Rules) or an independent non-executive director of the issuer or any of their respective associates, and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1% of the total issued shares of the issuer for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders in general meetings. Apart from the connected person involved, all other connected persons of the issuer must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the issuer explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent directors on whether or not to vote in favour of the proposed grant.

4.6 Regarding Rule 23.08, the following additional disclosures must be made in the annual and interim reports of an issuer:

- (i) details of options granted to the following persons: each director; and all the other participants.
- (ii) a summary of the major terms of each share option scheme approved by shareholders.

The agreement between the SFC and the Exchange is against the following background.

- (a) The Exchange will prepare a consultation paper to conduct a full market consultation on the issues mentioned in paragraphs 1 to 4 above and any other issues which the Exchange or the SFC may consider appropriate, such consultation paper to be issued as soon as reasonably practicable and providing the public with a reasonable time within which to respond and to provide comments;
- (b) Within a reasonable time after completion of the consultation period, the Exchange will prepare and issue a consultation conclusions paper with sufficient details advising the market of the comments received and the conclusions drawn;
- (c) Within a reasonable time after the issue of the consultation conclusions, the Exchange will present the relevant amended rules to the Commission for consideration and approval pursuant to section 34 of the Stock Exchanges Unification Ordinance;

.../4



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



香港聯合交易所
The Stock Exchange of Hong Kong

(香港交易及結算所有限公司全資附屬公司
*A wholly-owned subsidiary of Hong Kong Exchanges and
Clearing Limited*)

- 4 -

- (d) No waivers shall be given to further relax or modify the provisions of paragraphs 1 to 4 above until finalisation of the rule review process referred to in paragraphs (a) to (c) above; and
- (e) The SFC and the Exchange acknowledge that the rule review resulting from the public consultation may or may not be more restrictive than the existing provisions of the GEM Rules and those set out in paragraphs 1 to 4 above.

* * *

March 11, 2000