

Chronology of Events

Date	Serial No.	Event
26.10.00	1	<p><u>Regular Meeting between Financial Services Bureau (FSB) and the Hong Kong Stockbrokers Association.</u></p> <p>The Hong Kong Stockbrokers Association wrote to the Financial Services Bureau (FSB), suggesting as an agenda item for its regular meeting with the FSB problems of shares falling below one cent, the dilution of shares values at the expense of minority shareholders, and the proliferation of penny stocks.</p>
27.12.00	2	<p>FSB (Salina Yan, Principal Assistant Secretary for Financial Services (Securities)) wrote to the Securities and Futures Commission (SFC) (David Stannard, the then Executive Director (Corporate Finance)) to reflect the concerns of the Hong Kong Stockbrokers Association and sought his advice for the next meeting with the Association.</p>
late 2000	3	<p>SFC had internal discussions about the prevalence of penny shares in the HK market. The discussion also covered a letter from FSB (see item 2 above).</p>
28.12.00	4	<p><u>First Suggestion to Address Problems Associated with Penny Stocks.</u></p> <p>SFC (David Stannard) advised FSB (Salina Yan) that SFC had been discussing related subjects with the Hong Kong Exchanges and Clearing Ltd (HKEx) for some years.</p> <p>SFC (David Stannard) also explained the mechanism of trading of shares below one cent in Hong Kong, the US system of treating shares trading below US\$1 as “penny stocks”, and drew FSB’s attention to the large number of stocks in Hong Kong trading below \$1 and the concern that “penny stocks” are prone to market manipulation.</p> <p>SFC (David Stannard), in explaining the thinking on mandatory share consolidation, said that -</p> <p><i>“One way forward may be a package of measures as follows:-</i></p> <ol style="list-style-type: none"> <li data-bbox="635 1951 1401 1989">1. <i>Initial Public Officer (IPO) price must be over HK\$1.00.</i> <li data-bbox="635 2033 1455 2067">2. <i>No corporate action (e.g. sub-division or bonus issue) if the</i>

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		<i>effect would be to reduce the share price below HK\$1.00.</i>
28.12.00 (Cont' d)	4 (Cont' d)	<p data-bbox="632 439 1458 544">3. <i>Compulsory consolidation to a price above HK\$1.00 if the share price trades below 50 cents for more than 30 days or for more than 60 out of 90 days.</i></p> <p data-bbox="632 595 1492 741"><i>This would be a dramatic step and one can expect resistance to this. However, it would send a clear signal to the market that the Government and the regulators want to upgrade the quality of the market.</i></p>
Early 2001	5	HKEx held informal discussions with market participants.
02.01.01	6	SFC (David Stannard) wrote to FSB (Salina Yan) attaching a newspaper column on share registration fees charged by brokers as another reason why penny shares are a problem.
15.02.01	7	The Hong Kong Economic Journal (HKEJ) columnist (Lam Heng-sze) commented that the solution to the penny stocks problem is to require share consolidation or to delist those companies which refuse to do so.
16.02.01	8	<p data-bbox="564 1196 1492 1301">FSB (Salina Yan) wrote to SFC (David Stannard), referring him to press comments of 15.2.01 (item 7), and the need to seek the views of the market on the possible solutions:-</p> <p data-bbox="632 1352 1458 1682"><i>“..Our concern here is twofold: our international financial centre reputation and investor protection. The latter is valid as shareholders would need to pay extra shares registration fees if these penny stocks are to be consolidated. This process may repeat itself as the share price drops again. And delisting would just deprive the small shareholders of the chance to liquidate their position thro the exchange. The US model [which focuses more on the reputation of the exchange] may not be the solution here.”</i></p> <p data-bbox="632 1733 1458 1879"><i>“I understand that you are reviewing the subject with HKEx. As there is no clear cut solution to the problem, I think the sensible thing to do is to put the issue to the market for their views.”</i></p>
	9	<p data-bbox="564 1921 1394 1957">SFC (David Stannard) replied to FSB (Salina Yan), stating that:-</p> <p data-bbox="632 2009 1458 2078"><i>“At present there is a lot of concern about the share certificate issue charges on a consolidation but that may be able to be</i></p>

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		<i>overcome. If we can work something out we will expose it to the public for their views.”</i>
10.05.01	10	HKEJ reported that Lawrence Fok, Deputy Chief Operating Officer of the HKEx said it would require share consolidation but not delisting of penny stocks.
13.06.01	11	<p>SFC received a letter from a member of the public, whose suggestions included:-</p> <p><i>“Companies that have 2 consecutive years of losses or with share prices below \$0.5 should be delisted.”</i></p> <p>SFC believed this might be a common question among investors and decided to post an answer on its website.</p>
30.07.01	12	<p><u>HKEx’s First Draft on Consolidation of Shares.</u></p> <p>HKEx (Mr Mark Bewley, Assistant Vice President, Listing Division) submitted the first draft of a consultation paper on consolidation of shares to SFC. The focus of the paper was the technical concern that HKEx’s automatic trading system was unable to handle prices below HK\$0.01.</p> <p>Included in the paper was a proposal to require the consolidation of low-priced stocks (i.e. where the closing price of shares falls to HK\$0.01 or below for an aggregate of 20 trading days in any period up to three months) to HK\$0.1 or above. In addition, any corporate action should not result in a theoretical price falling below ten cents.</p> <p>It was stated in the draft paper that:-</p> <p><i>“Shares are normally traded through ... the Automatic Order Matching and Execution System (AMS) ... The minimum price at which securities may be traded using automatching is HK\$0.01. Shares may be traded at prices below HK\$0.01 by using the Semi-automatic Matching System (SAMS) ... Trading on the SAM system is not as transparent as on the AMS. The Stock Exchange considers that it is undesirable for an issuer’s shares to be traded on the SAM system for a prolonged period. Consequently, the Stock Exchange ... proposes to require issuers to present proposals to shareholders to increase the value of their shares if the closing price of their shares falls to [HK\$0.01] (square brackets in the original) or below ... The</i></p>

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		<i>Stock Exchange will regard a proposal to consolidate an issuer's securities as acceptable ..."</i>
30.07.01 (Cont' d)	12 (Cont' d)	<i>"The Stock Exchange proposes to establish a floor price of HK\$0.10. Issuers would be prohibited from undertaking bonus issues, share splits, open offers, rights issues, and other corporate actions that would lead to a "theoretical" share price falling below the floor price."</i>
08.08.01	13	<p><u>SFC's Comments on the First Draft Paper on Consolidation of Shares.</u></p> <p>SFC (Mr Charles Grieve, Director, Corporate Finance Division) commented on the first draft paper on consolidation of penny stocks.</p> <p>SFC was of the view that HKEx's proposal was not sufficient to deal with the more important issue, i.e. that share manipulators concentrated their efforts on shares with a low value. In SFC's view, the right thresholds were around \$1 and \$5:-</p> <p>SFC's reply said:-</p> <p><i>"the [HKEx's] paper only deals with one aspect of penny shares – how to deal with shares that trade below 1 cent, the minimum price that the AMS can handle. The more important issue is the way share manipulators concentrate their efforts on shares with a low value."</i></p> <p><i>"In [SFC's] view the right thresholds are around HK\$5.00 and HK\$1.00. We know a HK\$1.00 level for share consolidation would impact well over half of the companies listed on the Exchange, however that does not justify a lower threshold. Rather it requires a phased introduction for existing issuers."</i></p>
03.09.01	14	<p><u>FS' Regular Meeting with SFC Chairman</u> (Andrew Sheng).</p> <p>SFC Chairman informed FS that "HKEx had been reviewing its listing rules with an aim to streamline and strengthen their enforcement".</p> <p>The acting Secretary for Financial Services (SFS) (KC Au) was also present at the meeting.</p>

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24.09.01	15	<p>SFC posted a Question & Answer on penny shares on its website in response to the letter dated 13.06.01 (item 11):-</p> <p>“Consecutive losses for more than 2 years or a low share price do not necessarily mean that the company does not have sufficient level of operations or tangible assets. There may be external factors that may cause the continuous losses or low share prices, e.g. global economic slowdown or poor market sentiment.”</p> <p><i>“Bearing these factors in mind, it would therefore be inappropriate for the regulators to delist a company merely because it recorded losses for over two consecutive years or has a low share price.”</i></p> <p>SFC (Grieve) wrote to HKEx (Ms Karen Lee, Head of Listing, Regulation & Risk Management) on this updating of the website.</p>
01.11.01	16	<p>The Association passed to FSB examples of some listed companies diluting minority shareholders’ interests and suggested that HKEx follow up on such instances.</p>
02.11.01	17	<p>FSB (Salina Yan) wrote to SFC (Mr Laurence Li, Director, Corporate Finance Division) to reflect the concerns of the Hong Kong Stockbrokers Association and passed on the specific examples provided by the Association.</p> <p>FSB (Salina Yan) copied the letter to HKEx (KC Kwong, Chief Executive and Karen Lee, Head, Listing Regulation and Risk Management), informing HKEx that FSB had encouraged the Association to give their views to HKEx direct and suggesting that HKEx engaged the Association in mapping out proposals to address share dilution and other investor protection issues.</p>
28.11.01	18	<p><u>SFC and HKEx held their 124th Monthly Liaison Committee Meeting.</u></p> <p>Delisting and penny shares were discussed as separate subjects.</p> <p>On delisting, the discussion focused on the Listing Committee’s position and argument that protection of minority shareholders justifies exploration of every prospect of restructuring. SFC said that the Listing Committee should be alerted to the relevant statistics in</p>

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		<p>considering the delisting proposal.</p> <p>On penny shares, the meeting noted that HKEx was working on a draft policy paper.</p>
03.12.01	19	<p><u>SFC Commission Meeting.</u></p> <p>SFC Corporate Finance Division briefed the Commission on its internal study on the quality of listing and corporate governance in Hong Kong.</p>
12.12.01	20	<p>HKEx (Karen Lee) wrote to SFC (Ashley Alder, Executive Director, Corporate Finance Division) in connection with an <u>unrelated</u> set of draft proposals for amendments to the Listing Rules for enhancing corporate governance.</p> <p>HKEx expressed misgivings that SFC had passed a draft consultation paper to its Shareholders Group for discussion before the proposals had been finalized and deliberated by the Listing Committee. HKEx asked that SFC should not pass draft policy papers to the Shareholders Group for discussion unless with HKEx's prior agreement.</p>
	21	<p><u>SFC Chairman's Letter to the SFS.</u></p> <p>SFC Chairman (Andrew Sheng) wrote to SFS (Stephen Ip) attaching a copy of SFC's internal study report on the quality of listing and corporate governance. The paper had been considered by the Commission at an earlier meeting (item 19). SFC Chairman relayed the Commission's concern about the quality of issuers and its request for Commission staff to come up with further solutions. SFC Chairman asked that the matter be discussed at the regular liaison meeting with FSB the next day.</p>
13.12.01	22	<p><u>Securities and Futures Liaison Meeting between FSB and SFC.</u></p> <p>The meeting agreed that Tripartite Meetings amongst the heads of FSB, SFC and HKEx should be held to monitor overall progress of key issues affecting the development of the securities and futures market.</p>
14.12.01	23	<p>SFC (Ashley Alder) replied to HKEx's (Karen Lee) letter of 12 December (item 20) to explain its position about discussing HKEx's proposals with the Shareholders Group.</p>

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20.12.01	24	<p>FSB (Salina Yan) wrote to SFC Chairman to ask for suggestions for agenda items for the first tripartite meeting.</p> <p>In setting up the meeting, FSB stressed the independence of SFC as regulator as set out in the Ian Hay Davison Report (the Report of the Securities Review Committee released in May 1988), as well as the powers conferred to the SFC to regulate the market operator under the law.</p>
20.12.01 (Cont' d)	25	<p>Chief Executive of HKEx conducted Year-end-Review press briefing, mentioning the “review of delisting procedures” as one of the priority tasks of HKEx in 2002.</p>
	26	<p><u>HKEx’s Second Draft Paper on Consolidation of Shares.</u></p> <p>HKEx (Mark Bewley) submitted the second draft of the consultation paper on consolidation of shares for SFC’s consideration.</p> <p>Included in the Paper was a revised proposal on consolidating low-priced stocks i.e. shares with closing price at 10 cents or below for an aggregate of [30] trading days in any period of [up to three months] should be consolidated to a level that reaches 20 cents or above. In addition, any corporate action shall not result in a theoretical price falling below 30 cents. (Square brackets also appeared in original documents.)</p> <p>In its e-mail to SFC, HKEx defended its proposal by reference to its market impact assessment -</p> <p><i>“As you noted, setting prices at [the HK\$5 and HK\$1] levels would affect a substantial number of companies ...about 63 to 65% of companies on the main board and GEM trade at below HK\$1.00. None of the companies listed on GEM trade above HK\$5.00 and only about 8% of companies on the main board do so.”</i></p> <p><i>“In light of your comments the proposals have been revised and the Consolidation Price is now suggested to be ten cents. ... On the basis of prices for the three months ended 10th August 2001 this proposal would affect 93 companies on the main board and 6 on GEM. The proposed Floor Price has also been increased from ten cents to thirty cents.”</i></p> <p><i>“Setting the Consolidation Price at ten cents means that a company’s shares may fall a further 90% before reaching the</i></p>

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		<i>one cent level where trading on an automatching basis is not possible. Likewise setting the Floor Price at thirty cents means there is considerable leeway for prices to fall before they reach the Consolidation Price.</i> "
Sometime on 20.12.01 and thereafter	27	<p>SFC (Laurence Li) and HKEx (Karen Lee) discussed the proposed consolidation of shares in several telephone conversations.</p> <p>During the discussion, HKEx expressed the view that share consolidation would reduce the number of shares of a listed company in circulation and therefore their liquidity. SFC explained that share prices are only "nominal" and the "unit of exchange" is actually the board lot, hence share consolidation has no bearing on liquidity except to the extent that low prices may mislead investors into thinking that they are cheap. Li said he would set out the considerations in detail in a letter.</p>
	28	SFC executives then discussed internally various issues relating to share consolidation, researched into historical data, and estimated the cost impact, before further replying HKEx.
21.12.01	29	<p><u>SFC Chairman's Letter to the HKEx Chairman.</u></p> <p>SFC Chairman (Andrew Sheng) wrote to HKEx Chairman (Charles Lee), sharing the results of the SFC's internal study on the quality of the Hong Kong market, expressing concern on the growing perception of deteriorating quality of the Hong Kong listing market, and raising the need for urgent efforts for SFC and HKEx to work together to reverse such disturbing trend by:-</p> <ul style="list-style-type: none"> ● seeking good quality companies; ● stepping up disclosure standards and enforcement; and ● putting in place meaningful on-going assurance standards on entry, exit and gate-keeping of listed companies. <p>On the subject of delisting, the letter said:-</p> <p><i>"When it becomes clear a company no longer has any credible business that is sufficient to justify a listing status, delisting should follow."</i></p>

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		The letter was copied to SFS (Stephen Ip).
29.12.01	30	International Monetary Fund (IMF) conducted Article IV Consultation for the Hong Kong Special Administrative Region, and questioned whether Hong Kong had delisting requirements for consistently poor performers as in other markets. After consulting SFC, FSB replied to the IMF, outlining the existing mechanism under the Listing Rules.
19.01.02	31	<p><u>HKEx Chairman's Response to SFC Chairman's Letter.</u></p> <p>HKEx Chairman (Charles Lee) responded to the letter of 21.12.01 from SFC Chairman (item 29), outlining the work being done by HKEx to address issues of market quality. The share consolidation proposals were mentioned.</p> <p>On penny stocks, HKEx Chairman said that HKEx agreed that it was desirable to set floor trading prices, and had proposed that issuers consolidate their shares to a theoretical price of 20 cents if the shares had been trading below 10 cents for more than 20 days. A table entitled "Summary of Key Action Items" attached to the letter mentioned that the two subjects might be combined into one consultation.</p> <p>The letter stated that:-</p> <p><i>"We have earmarked the improvement of our delisting regime as one of the top priority projects for this year. We envisage that the delisting project will review the continuing listing qualifications and address the need for expediting the delisting procedures. We aim to complete our study and come up with suggestions for changes for discussion with your executives in the first quarter of this year. Depending on the outcome of the discussion, we could consult the market in the second quarter."</i></p> <p><i>"As to penny stocks, we agree that it is desirable to set a floor level of trading prices. As you might be aware, we have been discussing with your executives in this regard in the course of last year. We have proposed that we should require issuers to consolidate their shares to a theoretical price of 20 cents if the shares have been trading below 10 cents for more than 20 days during a period of 3 months. We have also proposed to prohibit corporate actions by issuers which will result in the theoretical value of the share price falling below 30 cents. We have submitted the draft consultation paper to your executives</i></p>

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		<p><i>for comment. Subject to those comments, we propose to consult the market in the second quarter of this year.”</i></p> <p>The table attached to the letter stated that:-</p> <p><i>“... depending on the outcome of [discussion with SFC executives] and timing for market consultation ... might consider to combine the two subjects into one consultation.”</i></p> <p>The letter was copied to SFS (Stephen Ip).</p>
24.01.02	32	<p><u>First Tripartite Meeting.</u></p> <p>Meeting held amongst SFS (Stephen Ip), SFC Chairman (Andrew Sheng), and Chief Executive of HKEx (KC Kwong) on HKEx-related matters. Deputy Secretary for Financial Services (DSFS) (KC Au) also present.</p> <p>The meeting noted that in addition to the Listing Rules Review on Corporate Governance, HKEx was separately working on delisting and reviewing entry qualifications as part of its drive to improve market quality.</p> <p>SFC Chairman undertook to expedite the examination of HKEx’s proposal for compulsory consolidation of penny stocks when share price dropped below 30 cents (see next item).</p>
25.01.02	33	<p><u>SFC’s Comments on HKEx’s Second Draft Paper on Consolidation of Shares.</u></p> <p>SFC (Laurence Li) wrote to HKEx (Mark Bewley) on HKEx’s second draft paper on consolidation of shares (item 26).</p> <p>SFC commented that the HKEx’s second draft paper on consolidation of shares was still short of achieving the ultimate objective relating to quality and market perception, and that the setting of a minimum share price could be an important measure to assure quality while noting that arguments had been made against such an approach.</p> <p>It re-iterated that the threshold should be HK\$1.</p> <p>The SFC also considered that the issue should receive the benefit of an informed market debate and a public consultation paper containing a</p>

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		<p>discussion of the relevant considerations would be very helpful.</p> <p>Extracts from SFC' s reply which are worth quoting in extenso:-</p> <p><i>“The issue of penny (or cent) stocks is much more than just how the AMS3 trading system could handle order quoted at below one cent per share. Indeed, if system capability were the only concern, we would agree that the proposed ten cents / thirty cents regime would be a good solution. But the issue is more complex. There are also questions of quality and market perception.”</i></p>

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25.01.02 (Cont' d)	33 (Cont' d)	<p><i>“We begin our analysis at exactly the premise that, as you mentioned in your e-mail, share prices are “theoretical” only. (Some people also refer to this as a matter of “nominal” prices.) Share prices do not reflect how much an investor would have to pay or would receive when trading. The “units of exchange” are board lots rather than number of shares.”</i></p> <p><i>“An important twist to this general point is that nominal prices could lead investors to perceive – incorrectly – that a stock is “cheap” because it is priced in cents. Local market practitioners have long reported this investor psychology. Overseas markets have also had similar experiences. (The penny stock debate in the United States is a commonly cited example.)”</i></p> <p><i>“Some issuers, understandably, adapt to this psychology and structure their share capital so that their stocks are quoted in cents. As an overall market development, this is undesirable because it is misleading to investors and could lead to stocks becoming “gambling numbers” rather than representing investments in businesses. Indeed, many commentators have pointed to this phenomenon of retail investors just “buying numbers” as counter to the Hong Kong market developing quality.”</i></p> <p><i>“Our long-term objective in setting a minimum share price is to discourage companies as well as investors from seeing stocks as “gambling numbers” and encourage a proper focus on quality. The one-dollar mark is important for psychological reasons. It would also improve our international profile. (Other markets that have minimum share price rules, e.g. NYSE, Nasdaq, Neuer Markt, and the Mainland, set the threshold at the lowest integer value of their legal tender, i.e. US\$1, 1 Euro, and 1 RMB. Indeed, a HK\$1 minimum would be low in absolute value in comparison but would follow this international practice.)”</i></p> <p><i>“Indeed, you might want to note that two well-respected commentators have recently called for setting HK\$1 as the minimum share price. (See article by Tso Yan Chiu in the Hong Kong Economic Journal on January 9 and article by David Webb dated January 6 as published on <webb-site.com>.)”</i></p>

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25.01.02 (Cont' d)	33 (Cont' d)	<p><i>“We appreciate that a HK\$1 minimum would affect a large number of issuers. This argues for a long transition so that companies could prepare and investors could adapt their behaviour. But as an immediate step, the public consultation paper should clearly set out the long-term objective, together with the relevant positive and negative considerations.”</i></p> <p>The letter analyzed in detail the mechanics as well as costs of share consolidation and corresponding board lot reduction, then went on to conclude that:-</p> <p><i>“We appreciate that jumping to a HK\$1 minimum is probably ambitious and a phased approach might be necessary. However, the policy objective is an important one. This should be made very clear in the public consultation document, together with the relevant positive and negative considerations, some of which are discussed above.</i></p> <p><i>Incidentally, as I have mentioned to Karen, we agree that revisions to the continuing listing criteria, the delisting procedure, and the rules on so-called backdoor listings will be the primary requirements aimed at assuring quality. But setting a minimum share price can also be an important measure. We understand that arguments have been made against such an approach and we remain open-minded. However, the issue should receive the benefit of an informed market debate. A public consultation paper that contains a discussion of the relevant considerations would be very helpful in this regard.”</i></p>
28.01.02	34	<p>FSB (Ms KC Au) added to an e-mail from FSB (Salina Yan) to SFC (Mr Keith Lui, Commission Secretary) on the same day about subjects to report to the Legislative Council (LegCo) Panel on Financial Affairs. Delisting and penny stocks were mentioned:-</p> <p><i>“Note also that during the meeting the Deputy Chairman of the Panel, the Hon Henry Wu, specifically asked if the [Listing Rules] Review on [corporate governance] addressed his stakeholders’ concern about delisting and penny stocks.”</i></p> <p><i>“In light of the timetable that HKEx just provided to SFC, we told the Hon Wu that these would be subjects of separate HKEx consultation and we would seek Panel’s view when the proposals were ready, possibly sometime in May – July. ”</i></p>

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29.01.02	35	SFC (Laurence Li) forwarded to FSB (Salina Yan) a copy of his letter of 25.1.02 to HKEx (item 33) for information.
07.02.02	36	<p>Meeting of the Directors of SFC.</p> <p>Laurence Li briefed others on key findings in the study on the quality of the Hong Kong listing market. Li said that HKEx was working on tougher delisting rules and a proposal on mandatory share consolidation for penny stocks. Li also referred to the discussion with HKEx on price threshold for share consolidation.</p>
26.02.02	37	<p><u>SFC and HKEx held their 126th monthly Liaison Committee Meeting.</u></p> <p>The Committee's discussion on "continuing listing qualification/delisting" focused on making minimum number of shareholders a continuing obligation.</p>
01.03.02	38	<p><u>Meeting of Co-ordination Committee</u> (Co-ordination Committee¹).</p> <p>The meeting was chaired by HKEx Chairman (Charles Lee) and attended by SFC Chairman (Andrew Sheng) and SFS (Stephen Ip).</p> <p>The meeting noted progress of HKEx's deliberation on delisting and plan to conduct market consultation in the second quarter of 2002.</p>
06.03.02	39	<p><u>Meeting of Shareholders Group.</u></p> <p>SFC presented its study on the quality of the Hong Kong listing market to the Commission's Shareholders Group. The Group discussed:-</p> <ul style="list-style-type: none"> ● the problems associated with penny stock in Hong Kong; ● the possibility of tighter continuing listing requirements; and

¹ In mid 2001, the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited jointly initiated and funded a consultancy study by McKinsey and Company entitled "A Plan to be Successful in the New Chinese and International Capital Markets". The report which set out proposals to further develop Hong Kong as a premier financial centre in Hong Kong, was completed in July 2001, and endorsed by Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited. A Co-ordination Committee chaired by Chairman, Hong Kong Exchanges and Clearing Limited, with representatives from the Hong Kong Exchanges and Clearing Limited, Securities and Futures Commission and Financial Services Bureau was set up in September 2001. Financial Services Bureau attended the meetings to monitor progress of the key issues affecting Hong Kong's development as an international financial centre.

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06.03.02	39 (Cont' d)	<ul style="list-style-type: none"> • more stringent delisting procedures. <p>The SFC did not present any actual proposals on share consolidation or delisting at the meeting.</p>
19.03.02	40	<p><u>Second Tripartite Meeting.</u></p> <p>Members noted that HKEx was working on Phase II of the Listing Rules review concerning compulsory consolidation of penny stocks and floor price for delisting, as part of its drive to improve market quality. HKEx said that it would discuss proposals with SFC in one to two months' time.</p>
27.03.02	41	<p><u>SFC and HKEx held their 127th Monthly Liaison Committee Meeting.</u></p> <p>The meeting discussed the subject of admission requirements and continuing listing requirements. HKEx (Karen Lee) said HKEx would circulate a draft consultation paper by the end of April.</p>
17.04.02	42	<p>HKEx's annual general meeting.</p> <p>Chief Executive of HKEx mentioned with journalists that HKEx would publish a consultation paper on a delisting mechanism.</p>
24.04.02	43	<p><u>SFC and HKEx held their 128th Monthly Liaison Committee Meeting.</u></p> <p>HKEx mentioned its plan to circulate a draft paper on the admission and continuing listing requirements by the end of April. The meeting also noted that FSB paid attention to the project and that the public generally supported a clear delisting policy.</p>
30.04.02	44	<p><u>HKEx's First Draft of the Consultation Paper on Admission Criteria and Continuing Eligibility Criteria (the Consultation Paper).</u></p> <p>HKEx (Karen Lee) submitted the first draft of the Consultation Paper on Admission Eligibility Criteria and Continuing Eligibility Criteria (the "Consultation Paper") to SFC (Ashley Alder). The original share consolidation proposal was now subsumed within the package of delisting proposals.</p>

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		<p>The draft paper included, among others, the following proposals:</p> <ul style="list-style-type: none"> • Introducing a minimum closing price of HK\$0.3 as a eligibility criterion for continuing listing.
30.04.02 (Cont' d)	44 (Cont' d)	<ul style="list-style-type: none"> • Any corporate action must not result in the theoretical price of the shares falling below HK\$0.3. • Introducing a minimum Initial Public Offer price of HK\$1.00. <p>The paper did not consider it necessary to have an alternative trading platform for trading of delisted shares:-</p> <p><i>“There are views that an alternative trading platform should be set up to provide shareholders or investors of a delisted issuer with a venue to trade their shares after delisting. We consider that transparent qualitative delisting rules would provide adequate signals to investors and afford them sufficient time to act and make investment decisions. Accordingly, we do not consider that an alternative trading platform for trading of delisted shares is necessary.”</i></p> <p><i>“We recognize that it is impracticable to require issuers to maintain at all times a minimum closing price at the proposed minimum issue price of HK\$1, as market price will invariably be affected by, among other things, the performance of or corporate actions taken by the issuer subsequent to listing. Accordingly, we consider that it is appropriate to allow for a minimum price to be set at a level lower than HK\$1. In this regard, we consider that HK\$0.30 provides a reasonable benchmark as a continuing listing eligibility criterion. It is possible, under the trading system of the Exchange, for bid prices to be input which will have the effect of increasing the closing price even though there is no trading activity. Therefore, we consider that a certain level of trading volume in terms of shares should be required in conjunction with a minimum closing price.”</i></p>
	45	<p>SFC Chairman (Andrew Sheng) submitted the SFC’s Quarterly Report for the quarter ending 31 March 2002 to the FS (Antony Leung). This mentioned that “HKEx is currently considering tightening the quality of listed companies by introducing more stringent delisting criteria. The HKEx will consult the market in the second quarter.”</p>

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		A copy of the Report was provided to SFS (Stephen Ip).
May-June 2002	46	HKEx (KC Kwong, Karen Lee) attended a series of media interviews and luncheons to communicate its plan to publish a consultation paper on continuing listing criteria.
06.05.02	47	SFC (Daisy Lai, Senior Manager, Corporate Finance Division), in reviewing the first draft of the Consultation Paper, asked HKEx (Miss Ann Chapman, Vice President, Listing Division) to provide a list of companies on the Main Board which did not currently meet the profit requirement.
07.05.02	48	HKEx (Ann Chapman) reverted to the SFC with a list of companies to which a waiver of the profit requirement was granted.
10.05.02	49	<p>SFC completed an internal assessment of the number of companies which would have been subject to the various proposals set out in HKEx' s draft consultation paper.</p> <p>The assessment showed that only 20 or so companies would be at risk of delisting, but more than 300 would need to go through share consolidation.</p> <p>SFC understood from subsequent discussions with HKEx that the latter had performed a similar assessment with similar findings.</p>
13.05.02	50	<p><u>SFC Advisory Committee meeting.</u></p> <p>SFC presented its research paper on the quality of the Hong Kong listing market to the Advisory Committee for discussion. It did not present any actual proposals on share consolidation or delisting to the Committee.</p>
	51	<p><u>SFC's Comments on the First Draft of the Consultation Paper.</u></p> <p>SFC (Laurence Li), before a meeting to be held on 14 or 15 May with HKEx to discuss the first draft of the Consultation Paper, sent his initial and policy comments to HKEx (Karen Lee).</p> <p>SFC indicated again that the minimum Initial Public Offer and trading prices should be HK\$5 and HK\$1. SFC also raised questions on transitional arrangements:-</p>

Date	Serial No.	Event
13.05.02 (Cont' d)	51 (Cont' d)	<p><i>“We still strongly believe the minimum issue and traded prices should be \$5 and \$1. Our analysis is already set out in detail in my letter to you of a few months ago. In addition, the figure 30 cents gives the impression of compromise and lack of resolution. Investors and the market might well get the wrong message.”</i></p> <p><i>“Any thoughts on transitional arrangements?”</i></p>
15.05.02	52	<p><u>First Special Meeting between HKEx and SFC to Discuss the First Draft of the Consultation Paper.</u></p> <p>HKEx was represented by Karen Lee, Keniel Wong, Anne Chapman and Doris Lee of the Listing Division.</p> <p>SFC was represented by Charles Grieve, Laurence Li and Daisy Lai of the Corporate Finance Division.</p> <p>On the question of imposing a minimum share price as a continuing eligibility criterion, failing which delisting would result, SFC noted HKEx’s explanation that this was a necessary handle to enable HKEx to require a company to effect a share consolidation or otherwise bring itself back into compliance. SFC accepted that linking the minimum share price threshold to delisting was reasonable as a policy matter, as share consolidation would be the obvious remedy and delisting the ultimate sanction for failing to undertake this or other remedial action.</p> <p>On the threshold for the minimum trading price, SFC explained the rationale behind suggesting \$1 as the threshold. SFC said that the threshold should receive an informed public debate and it was important for the Consultation Paper to set out the positive and negative considerations and make clear that there would be a long transition period.</p> <p>HKEx did not agree to set the minimum-trading threshold at HK\$1.00 as the change would be too hasty, but agreed to further consider setting the proposed minimum trading threshold at HK\$0.50 or HK\$0.30.</p>

Date	Serial No.	Event
15.05.02 (Cont' d)	52 (Cont' d)	The question of whether delisted companies could apply to relist on GEM (as an alternative trading platform) was also discussed. SFC saw no policy objection to such relisting. HKEx held the view that as a matter of agreed policy, GEM was established to facilitate capital raising by enterprises with growth potentials. It would not reject potential GEM issuers which met the requirements of the GEM and this would in principle apply in the same way to companies delisted from the Main Board. However, a “cooling-off period” might be required to avoid immediate admission of a company delisted from the Main Board to GEM. As to the question regarding policy and direction for future development of GEM was outside the scope of the Consultation Paper, SFC agreed that it would raise this policy issue with the Exchange's business section at a later stage.
16.05.02	53	SFC (Daisy Lai) raised follow-up questions with HKEx (Ann Chapman, Doris Lee) on some of the policy issues discussed at the meeting of 15.5.02, including the question of transitional arrangements.
17.05.02	54	<p>HKEx (Anne Chapman) reverted to SFC (Daisy Lai) on the transitional period, stating that:-</p> <p><i>“As for continuing listing criteria, existing issuers will be given a grace period of one year, after which, they must comply fully with the new proposed rules. However, issuers will not be allowed to undertake any corporate actions that will result in the minimum closing price below 30 cents (subject to finalization).”</i></p> <p><i>“New listings after a certain cut-off date (to be decided) will be required to immediately comply with the continuing listing criteria. There will be no grace period for these new issuers.”</i></p>
30.05.02	55	<p><u>Meeting of Co-ordination Committee</u> (see note 1 under item 38).</p> <p>Members noted HKEx’s plan to submit a draft consultation paper on issuer delisting regime to the Listing Committee for consideration in June and publication for market consultation in July.</p>

Date	Serial No.	Event
30.05.02 (cont' d)	56	<p>Meeting of the Directors of SFC.</p> <p>Laurence Li updated colleagues on key proposals. He later spoke with Eric Cheng (Senior Director of Surveillance, Enforcement Division) and CK Chan (Associate Director and Head of Corporate Communications), who said that the “300+” number (of companies trading below 50 cents) would need careful handling. Li also consulted Stephen Po (Director, Intermediaries Supervision) about possible effect on brokers and margin financiers.</p>
07.06.02	57	<p><u>Third Tripartite Meeting.</u></p> <p>Chief Executive of HKEx (KC Kwong) said that HKEx aimed to consult the public on the proposals on penny stocks and delisting in July.</p>
Sometime before 08.06.02	58	<p><u>Discussion on the Second Draft of the Consultation Paper.</u></p> <p>SFC (Laurence Li) and HKEx (Karen Lee) discussed, during a telephone conversation, the question of relisting delisted companies on GEM (as an alternative trading platform).</p> <p>SFC (Laurence Li) suggested allowing delisted companies to be traded, but with a number “4” before its stock code. (Note: The number “4” is linked with the word “dead” in Cantonese.)</p> <p>HKEx (Karen Lee) said that since companies would have had nearly two years to bring themselves into compliance, investors would have plenty of time to exit, and, if a company failed only the minimum trading price requirement, it was easy to bring itself back into compliance. Those which would be delisted are not likely to have any value or investor interest. The “cooling off period” might best be addressed by focusing on track record to ensure quality and compliance with the policy of the GEM listings which require continuous ownership and management on one focused line of business. Main Board issuers normally had various businesses rather than only one. HKEx (Karen Lee) also raised the issue regarding potential confusion resulting from having both regulated and unregulated markets operating under the same trading platform.</p> <p>SFC (Laurence Li) did not pursue the subject further.</p>

Date	Serial No.	Event
08.06.02	59	<p><u>HKEx's Second Draft of the Consultation Paper and Tentative Timetable.</u></p> <p>HKEx submitted the second draft of the Consultation Paper and the tentative timetable for release of the Consultation Paper to SFC (via email from Karen Lee to SFC executives).</p> <p>In the second draft paper, HKEx proposed setting the minimum trading threshold at HK\$0.5 and the proposed minimum Initial Public Offer price at HK\$2. The e-mail stated:-</p> <p>“As to minimum share price, we recommend HK\$2 at time of listing and HK\$0.50 for continuing and will consult the market on HK\$5 and HK\$1 respectively.”</p> <p>As for the issue SFC raised at the meeting held on 15.05.02 about delisted companies relisting on GEM, the draft paper said:-</p> <p><i>“In this connection, we should point out that if an issuer, subsequent to delisting, wishes to apply for listing on any market operated by the Exchange, then for track record purposes the commencement date shall be from the date of its delisting from the Main Board.”</i></p> <p>In respect of timetable, HKEx said that subject to SFC's further comments, the plan was to have discussion by the Listing Committee on 04.7.02, to begin public consultation on 15.7.02 and end on 31.8.02, with the Initial Listing Criteria to take effect on 01.1.03 and Continuing Listing Criteria on 01.1.04.</p>
10.06.02	60	HKEx (Karen Lee) e-mailed SFC (Ashley Alder) to clarify the proposed transitional arrangements.
11.06.02	61	<p><u>HKEx's Third Draft of the Consultation Paper.</u></p> <p>HKEx submitted the third draft of the Consultation Paper to SFC (via email from Doris Lee to Ashley Alder).</p>
12.06.02	62	HKEx (Doris Lee) submitted the first draft of the executive summary of the Consultation Paper to SFC (Ashley Alder).

Date	Serial No.	Event
13.06.02	63	HKEx and SFC exchanged comments and information on waivers granted in respect of the minimum public float requirement (which is the subject of one of the initial listing criteria proposals), and the inclusion of the disclosure proposals (as part of initial listing criteria proposals) in the Consultation Paper.
14.06.02	64	HKEx (Anne Chapman) re-sent to the SFC the list of precedent cases for waiver of profit requirements sent on 7.5.02 (item 48).
	65	<p>FSB submitted to the Financial Secretary's Office some draft points-to-make for the Financial Secretary to use at the HKEx's second Anniversary Cocktail Reception scheduled for 20.6.02.</p> <p>One of the points included in the draft was:-</p> <p style="text-align: center;"><i>"HKEx ... will soon [release] public consultation papers regarding tighter mechanism on delisting penny stocks soon".</i></p> <p>A brief also provided elaboration that <i>"HKEx and SFC are reviewing the present delisting mechanism with the aim of strengthening it. A consultation paper will be issued by the end of this year"</i>.</p>
17.06.02	66	<p><u>SFC's Comments on HKEx's Third Draft of the Consultation Paper.</u></p> <p>SFC (Laurence Li) commented on the third draft of the Consultation Paper (via email to HKEx (Karen Lee)):-</p> <p style="text-align: center;"><i>"We have not arrived at a view on the \$5/\$1 and \$2/50 cents issue. But, in any event, the Consultation Paper should discuss the final goal of bringing ourselves in line with international norms." (Referring to paragraph 84.)</i></p> <p style="text-align: center;"><i>"You might want to include some discussion on how the costs of share consolidation is small, how companies do further minimize costs by timing the approval with their AGMs, and how many companies already engage in similar corporate actions (e.g., share splits, name changes)." (Referring to paragraph 188.)</i></p> <p style="text-align: center;"><i>"The existing Rule 6.12(2) [that shareholders should be offered a reasonable cash alternative or other reasonable alternative in the case of a voluntary delisting] seems ought to apply too."</i></p>

Date	Serial No.	Event
		<p><i>(Referring to paragraph 200.)</i></p> <p><i>“The threat of delisting might actually play into the hands of majority shareholders wishing to privatize without shareholders' vote ...We need to discuss this.” (Referring to paragraphs 198-206.)</i></p>
17.06.02 (Cont' d)	66 (Cont' d)	<p><i>“Public shareholders might never get a chance to exit if suspension is immediate and 6 months later the company is considered to have failed a continuing listing criterion. We would like to discuss your assessment of the potential impact. A starting point would be statistics on companies that are late with their accounts and how late. In addition, on potential for abuse, see ...above.” (Referring to paragraph 222.)</i></p> <p><i>“In general, while we strongly support the aim to have a quick delisting process, 1 month for coming up with a proposal and 6 months for bringing oneself back into full compliance might appear as very harsh ...We would like to discuss.” (Referring to paragraph 231(e).)</i></p> <p><i>“There ought to be some parameters, guidelines, indicators, or examples of (i) what are or aren't acceptable rescue proposals, (ii) what are or aren't definitive enough, and (iii) what are or aren't likely to be considered sufficient to bring a failed company back into long-term, sustained compliance.” (Referring to paragraph 231.)</i></p>
18.06.02	67	<p><u>SFC's Comments on HKEx's Third Draft of the Consultation Paper.</u></p> <p>SFC (Daisy Lai) provided further comments on the third draft of the Consultation Paper to HKEx (Anne Chapman).</p>
	68	<p>HKEx (Ann Chapman) reverted to SFC (Laurence Li) on SFC's comments in relation to the need to discuss the long-term goal and to the 6-month period for a company to bring itself back into compliance with the continuing listing criteria.</p>
	69	<p><u>SFC's Comments on HKEx's Third Draft of the Consultation Paper.</u></p> <p>SFC (Daisy Lai) e-mailed HKEx (Ann Chapman) to follow up on the various comments including the subject of potential abuse, stating</p>

Date	Serial No.	Event
		<p>that:-</p> <p><i>“We should make sure that the proposal should force voluntary delisting but not being abused by the controlling shareholder to achieve automatic privatization by mere non-compliance.” (Referring to paragraphs 198-206.)</i></p> <p><i>“Please clarify in the consultation paper whether share consolidation will be taken as a proposal or autocure.” (Referring to paragraphs 234-235.)</i></p>
18.06.02 (Cont’ d)	69 (Cont’ d)	<p><i>“We have noticed that the continued listing criteria relating to minimum number of shareholders and public float may have serious impact on takeover situation ...These two criteria may also be prone to abuse (to force delisting). We need to discuss these further ...”</i></p>
20.06.02	70	<p><u>FS’ Regular Meeting with SFC Chairman</u> (Andrew Sheng).</p> <p>SFC Chairman informed FS that HKEx “was planning to issue a consultation paper to provide for a delisting mechanism”.</p> <p>FS was concerned that some recent incidents in HKEx such as failure of the Uninterruptible Power Supply system might tarnish the image of the HK stock market. FS asked SFS (Stephen Ip) to draft a letter to HKEx Chairman to impress upon him the importance of ensuring the quality of the market and the robustness of the trading systems in Hong Kong.</p>
	71	<p><u>HKEx Second Anniversary Cocktail Reception.</u></p> <p>The Administrative Assistant to FS (Howard Lee) provided FS with draft remarks to deliver at the Reception, on the basis of the draft points-to-make provided by FSB on 14.6.02 (item 65).</p> <p>FS’ remarks included:-</p> <p><i>“HKEx will shortly put forward another consultation paper on delisting mechanism to improve the quality of the market.”</i></p>
	72	<p><u>Second Special Meeting between HKEx and SFC to Discuss the Third Draft of the Consultation Paper.</u></p> <p>HKEx was represented by Karen Lee, Keniel Wong, Ann Chapman and</p>

Date	Serial No.	Event
		<p>Doris Lee.</p> <p>SFC was represented by Charles Grieve, Laurence Li and Daisy Lai.</p> <p>The discussion touched upon the proposals on waivers of minimum track record and minimum public float requirements, potential for abuse in certain areas, and what would constitute “definitive” proposal which would be acceptable to HKEx in the context of the proposed delisting regime.</p> <p>The SFC did not raise any objection to the proposal to set the minimum trading threshold at HK\$0.50.</p>
20.06.02 (Cont’ d)	73	<p><u>SFC’s Comments on HKEx’s Third Draft of the Consultation Paper.</u></p> <p>SFC (Daisy Lai) e-mailed HKEx (Ann Chapman) to follow up on some policy issues (concerning potential abuses) arising from the content of the draft Consultation Paper, stating that:-</p> <p><i>“Controlling shareholders seeking to privatize their companies can easily manipulate these two criteria [public float and minimum number of shareholders] to trigger a delisting. We need to address these potential abuses.”</i></p>
21.06.02	74	<p>HKEx (Karen Lee) agreed with SFC (Laurence Li) to resolve the issue by treating the two requirements highlighted in the email of 20.6.02 (item 73) as continuing obligations (as opposed to continuing listing eligibility) so that any non-compliance would result in disciplinary actions rather than delisting.</p>
	75	<p><u>SFC’s Comments on HKEx’s Third Draft of the Consultation Paper.</u></p> <p>SFC (Daisy Lai) e-mail HKEx (Ann Chapman) further to item 73, suggesting that:-</p> <p><i>“We believe it would be very helpful to the market to include some very general criteria/guidelines on what HKEx would look at when determining whether a proposal to restore compliance with the continuing listing criteria is acceptable.”</i></p>
	76	<p>HKEx (Anne Chapman, Doris Lee) and SFC (Charles Grieve, Daisy Lai) exchanged comments and information on turnover velocity (which</p>

Date	Serial No.	Event
		is related to one of the continuing listing criteria proposals) and comparison of the UK and HK prospectus contents requirements.
24.06.02	77	<p><u>SFC’s Comments on HKEx’s Third Draft of the Consultation Paper.</u></p> <p>SFC (Daisy Lai) sought clarification from HKEx (Ann Chapman) on the contents of the third draft of the Consultation Paper concerning right issue:-</p> <p><i>“We note from the current proposal that rights issue that might result in a theoretical share price below HK\$0.5 will not be approved by the Exchange. We wish to confirm that issuers are not prohibited from undertaking a share consolidation at the same time in order to facilitate a rights issue which may otherwise result in a share price below HK\$0.5.”</i></p>
25.06.02	78	<p>HKEx (Doris Lee) reverted to SFC (Daisy Lai) on the question of right issue to confirm that:-</p> <p><i>“We would not object to any rights issue that may result in a share price below HK\$0.50 so long as it is together with other proposals, such as consolidation, that has a net result of raising the share price above HK\$0.50.”</i></p>
26.06.02	79	<p><u>HKEx’s Fourth Draft of the Consultation Paper.</u></p> <p>HKEx submitted the fourth draft of the Consultation Paper to SFC, together with response to SFC’s earlier comments.</p> <p>It was confirmed that:-</p> <p><i>“...public float and minimum number of shareholders will be a continuing obligation rather than continuing listing eligibility criteria.”</i></p>
	80	Article in Sing Tao headlined “HKEx Proposes to Force Penny Shares to Consolidate”.
27.06.02	81	SFC (Charles Grieve) supplied comments to HKEx (Karen Lee) on the proposals on prospectus disclosure requirements.
28.06.02	82	<u>FS’ Letter to HKEx Chairman.</u>

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		<p>FS (Antony Leung) wrote to HKEx Chairman (Charles Lee), pointing out, among other things, that “the current state of affairs of corporate governance of listed companies is worrying” and inviting HKEx Chairman to consider improvement measures.</p> <p>The letter was drafted by and also copied to SFS (Stephen Ip).</p>
28.06.02 (Cont’ d)	83	SFC (Charles Grieve) and HKEx (Karen Lee) exchanged comments and information on the disclosure proposals.
01.07.02	84	<p>Frederick Ma assumed office as the Secretary for Financial Services and the Treasury (SFST).</p> <p>Financial Services Bureau (FSB) was renamed Financial Services and the Treasury Bureau (FSTB).</p> <p>FSTB prepared brief for SFST (Frederick Ma), outlining the package of measures to improve corporate governance standards. This mentioned also the public consultation on the proposed amendments to the Stock Exchange Listing Rules on delisting and penny stocks.</p>
02.07.02	85	SFST (Frederick Ma) revealed in an interview/radio programme on Metro his thinking about improvements to the listing structure (“reform to listing committee structure”).
03.07.02	86	<p><u>HKEx Chairman’s Response to FS’ Letter.</u></p> <p>HKEx Chairman (Charles Lee) replied to FS’ letter of 28.6.02 (item 82), saying that:–</p> <p><i>“We have proposed to SFC certain tightening up of the initial and continuing listing eligibility criteria (including treatment of penny stocks) and delisting procedures for the Main Board. We are finalising the consultation paper with SFC and will issue it by end July/early August. The aim is to implement the new rules in the first quarter of 2003.”</i></p> <p>The letter was copied to SFST (Frederick Ma).</p>
	87	<p><u>HKEx’s Second Version of the Fourth Draft of the Consultation Paper.</u></p> <p>HKEx’s Doris Lee submitted the second version of the fourth draft of</p>

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		the Consultation Paper to SFC (Ashley Alder).
	88	SFC (Daisy Lai) commented to HKEx (Doris Lee) on some of the outstanding issues in the second version of the fourth draft.
04.07.02	89	HKEx (Doris Lee) submitted the first draft of the questionnaire of the Consultation Paper to SFC (Ashley Alder).
04.07.02 (Cont' d)	90	HKEx and SFC continued to exchange information and comments on the draft Consultation Paper.
	91	SFC (Daisy Lai) confirmed with HKEx (Karen Lee) that SFC had no further comment on the disclosure proposals.
05.07.02	92	SFC supplied further comments to HKEx on the disclosure proposals in the second version of the fourth draft.
	93	HKEx (Anne Chapman) reverted to the SFC (Daisy Lai) on the queries raised on the second version of the fourth draft.
	94	<p><u>HKEx's Fifth Draft of the Consultation Paper.</u></p> <p>HKEx submitted the fifth draft of the Consultation Paper to SFC via e-mail from HKEx (Doris Lee) to SFC (Ashley Alder)</p>
08.07.02	95	<p><u>SFC Chairman's Letter to SFST.</u></p> <p>SFC Chairman (Andrew Sheng) wrote to SFST (Frederick Ma), explaining the key initiatives the Commission were taking to improve the quality of the Hong Kong listing market and in upgrading the standard of corporate governance.</p> <p>A copy of the Commission's internal study conducted in December 2001 was attached, referring to a large number of poor-quality listings.</p> <p>SFC Chairman (Andrew Sheng) mentioned that a key initiative arising from the study was a review of the entry and exit criteria for the Hong Kong listing market, and that HKEx had been working, in consultation with SFC, on a review of the present initial and continuing listing criteria for the Main Board, with a view to releasing a public consultation paper towards the end of July.</p>

Date	Serial No.	Event
	96	Administrative Assistant to SFST (Clara Tang) relayed SFST's suggestions to reform the Listing Committee to FSTB and sought its assistance in co-ordinating views with SFC and HKEx.
	97	FSTB (KC Au) set up a meeting for FSTB, SFC and HKEx to be held on 9.7 to work on the package of proposals and the rollout plan. The theme of the package would be "enhancing corporate governance and streamlining listing processes".
09.07.02	98	<p><u>First Special Meeting to Co-ordinate PR Roll-out Plan for SFST.</u></p> <p>Meeting amongst FSTB, SFC and HKEx to work out the package of proposals and PR Rollout plan for the press conference scheduled for 24.7.02 to be jointly held by all three to announce the restructuring of the Listing Committee and streamlining of listing procedures.</p> <p>(Note: this package did not cover penny stocks or the delisting proposals which were considered separate items not part of the corporate governance package.)</p> <p>The meeting was chaired by Permanent Secretary for Financial Services and the Treasury (Financial Services) (PSFS) (Tony Miller) and attended by Chief Executive of HKEx (KC Kwong), SFC (Andrew Sheng, Ashley Alder), FSTB (KC Au, Salina Yan).</p> <p>Chief Executive of HKEx (KC Kwong) mentioned at the meeting his plan to release the consultation paper on the delisting proposals on 24/25 July, following SFST's appearance before the LegCo Panel on Financial Affairs on 24.7.02, to introduce the package to improve corporate governance.</p> <p>The meeting also noted that HKEx's "delisting" proposals would be ready for considering by the Listing Committee on 18.7 and for consultation thereafter. Both SFC and HKEx recommended the inclusion of the mention of the "delisting" proposals when the package was to be jointly announced by FSTB, SFC and HKEx by end July, as it would fit in well with one of the three themes of the package, i.e. improving corporate governance. The other two themes are reforming listing committee structure and streamlining listing procedures.</p>
	99	After the meeting, Salina Yan of FSTB was asked to follow up on co-ordinating the input from SFC and HKEx for inclusion in the package and to start preparing briefing materials (Questions and Answers and

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		lines-to-take) on the package.
09.07.02 (Cont' d)	100	<p>In the evening, HKEx (Karen Lee) phoned FSTB (Salina Yan), outlining the HKEx' s timetable for release of its Consultation Paper –</p> <ul style="list-style-type: none"> • circulation of the draft Consultation Paper to the Listing Committee on 10.7 for the Committee' s consideration at its meeting scheduled on 18.7; and • publication of the consultation paper on 25.7.02. <p>HKEx (Karen Lee) mentioned concerns about the risk of leakage of the proposals in the Consultation Paper before the announcement of the package by SFST on 24.7. Karen Lee also sounded out Salina Yan on HKEx' PR plan for announcing the “delisting” proposals the day after, mainly to ascertain if it would be desirable to defer the publication of HKEx proposals so as not to disrupt the PR plan for the joint announcement scheduled for late July [24.7.02].</p>
10.07.02	101	<p>Salina Yan informed KC Au of the HKEx' s timetable and sought views on the concern about leakage, whilst noting that the Chief Executive of HKEx had already indicated to the press that a consultation paper would be published before end July.</p> <p>KC Au advised Salina Yan that the market was expecting the HKEx' s “delisting” consultation.</p>
	102	<p><u>SFC Summary Sent to FSB.</u></p> <p>FSTB (Salina Yan) called SFC (Laurence Li) for some lines to take on, and an outline of, the delisting package to prepare for the PR Rollout for the package on corporate governance improvements and streamlining processes to be announced on 24.7 at the joint press conference.</p> <p>SFC (Laurence Li) sent to FSTB (Salina Yan) by email a draft summary table (prepared internally by SFC) on the proposed admission and continuing listing criteria and delisting procedures (the “SFC Summary Table”) for Salina Yan' s information.</p>

Date	Serial No.	Event
10.07.02 (Cont' d)	103	<p><u>SFC's Comments on the Fifth Draft of the Consultation Paper.</u></p> <p>SFC (Laurence Li) supplied comments to HKEx (Karen Lee) on the fifth draft of the Consultation Paper and the Questionnaire.</p> <p>SFC offered no further policy comments on the fifth draft of the paper, which included the proposal to set the minimum trading threshold at 50 cents.</p> <p>SFC however expressed concern over the drafting, including the length of the document and the drafting:-</p> <p><i>“ ..The sheer length ... would no doubt cost some PR points. But we shall leave that to you. Our biggest point on the 5th draft has to do with drafting. Because of successive changes, the draft has gotten very long and unwieldy. There are also places where the same changes which seem to conflict with each other. Below are some examples but no doubt we've only spotted a few out of many. I strongly urge you to have a fresh pair of eyes read over the paper carefully in the next couple of weeks before public release.”</i></p> <p>HKEx (Karen Lee) advised SFC that the latest draft of the Consultation Paper had taken into account most of the comments and views of the SFC – “(actually 3 final-touch drafts over last weekend)”.</p>
	104	<p><u>Draft Consultation Paper (Sixth Draft) Sent to the Listing Committee.</u></p> <p>HKEx dispatched the advanced draft of the Consultation Paper to the Listing Committee members (for deliberation at the meeting of 18.7.02).</p>
	105	<p>SFC (Laurence Li) emailed HKEx (KL) to request a copy of the final version HKEx sent to its Listing Committee.</p>
	106	<p><u>Sixth Draft of the Consultation Paper Sent to SFC.</u></p> <p>HKEx (Doris Lee) submitted the sixth draft of the Consultation Paper (i.e. the version sent to the Listing Committee members) to SFC.</p> <p>She also advised SFC that this latest version had incorporated the</p>

Date	Serial No.	Event
		comments and views of SFC.
15.07.02	107	<p>FSTB (Salina Yan) forwarded to the Administrative Assistant to SFST (Clara Tang) a brief for the meeting of the Securities and Futures Liaison Committee (housekeeping meeting with SFC) to be held on 17.7.02.</p> <p>The brief outlined the PR Rollout Plan on listing matters and mentioned the publication of the consultation paper on delisting by the HKEx on 25.7.</p> <p>The brief was also passed to SFC.</p>
16.07.02	108	<p>HKEx (KC Kwong, Karen Lee) visited SCMP newsroom on invitation and held informal discussion with the editorial team members. Without disclosing details, Chief Executive of HKEx mentioned about that a consultation paper on continuing listing criteria had been submitted to the Listing Committee for consideration.</p>
17.07.02	109	<p><u>HKEx Sent Executive Summary of the Consultation Paper to FSTB.</u></p> <p>FSTB (Salina Yan) rang up HKEx (Karen Lee) for some lines-to-take and confirmation of the gist of the delisting package, as she had been unable to contact SFC (Laurence Li) to confirm that the draft summary (the SFC Summary Table prepared by SFC (item 102)) could be taken as final.</p> <p>HKEx (Karen Lee), in response, faxed a copy of the Executive Summary of the draft Consultation Paper (the “HKEx Executive Summary”) and an extract of a covering paper already circulated to the Listing Committee to FSTB (Salina Yan).</p> <p>FSTB (Salina Yan) had by then received confirmation from the SFC (Laurence Li) that the SFC Summary Table included the latest proposals which were put before the Listing Committee.</p> <p>FSTB (Salina Yan) had telephone conversations with HKEx (Karen Lee) and SFC (Laurence Li) asking their views about:–</p> <p>(a) what they would consider to be controversial in the proposals; and</p> <p>(b) what options would be available to investors in companies which</p>

Date	Serial No.	Event
		<p>may be delisted.</p> <p>Salina Yan was advised by Karen Lee that the dampening effect on “shell” buying activities could be a source of complaint.</p>
17.07.02 (Cont’ d)	109 (Cont’ d)	<p>She was advised by Laurence Li that around 25 companies might be at risk of being delisted if all the proposals were to be implemented right away. Mr Li further stressed that minimum trading price was meant to be a trigger for consolidation and there would be a long transitional period.</p>
	110	<p><u>Securities and Futures Liaison Meeting held between FSB and SFC.</u></p> <p>The Rollout Plan for the press conference scheduled for 24.7.02 was noted by the meeting.</p>
	111	<p><u>Communication within FSTB.</u></p> <p>FSTB (Salina Yan), after notifying her seniors (KC Au, DSFS and Tony Miller, PSFS), passed a copy of the SFC Summary Table to Administrative Assistant to SFST (Clara Tang), together with an email:-</p> <ul style="list-style-type: none"> ● highlighting that the proposals would be considered by the Listing Committee on 18.7 and for publication sometime after the press conference on 24.7; and ● relaying SFC’ s clarification that the 50 cents proposal was a trigger for consolidation.
	112	<p>The Administrative Assistant to SFST (Clara Tang) then placed a hard copy of the email from FSTB (Salina Yan) together with the SFC Summary Table in the in-tray of SFST (Frederick Ma).</p>
	113	<p>HKEx published its Exchange magazine which contained an article mentioning the imminent publication of the Consultation Paper.</p>
	114	<p>SCMP run an article headlined “Penny stocks face axe” and reported that:-</p> <p><i>“The exchange also plans to bring in a compulsory consolidation rule to eliminate penny stocks.”</i></p>

Date	Serial No.	Event
		<p><i>“Under the HKEx proposal, a company would be forced to carry out a share consolidation – combining a number of old shares into one new share – if the share price fell below a certain level. Such an exercise raises the theoretical share price.”</i></p>
17.07.02 (Cont’ d)	115	SFST (Frederick Ma) had a dinner engagement and left HK for London in the late evening (returning to duty on the morning of 22.7.02).
18.07.02	116	<p>Hong Kong Economic Times’ headlined that “Share Price Below 50 Cents, Proposal to Require Share Consolidation”.</p> <p>An article in SCMP headlined “Exchange poised to weed out penny counters”. It reported in detail the 50 cents share consolidation proposal. It quoted a source as explaining that:-</p> <p><i>“We want to give a warning light to the company earlier. The 50 HK cents is not the de-listing threshold. It is the threshold for companies to take corporate action to improve themselves,” the source said.</i></p> <p><i>“Should we set the threshold to a level too low, it may be too late for them to take any action to address their problems.”</i></p>
	117	<p>FSTB (Salina Yan) provided an internal minute to Tony Miller, PSFS via KC Au, DSFS. This contained a brief analysis of the various summaries provided by the SFC and HKEx.</p> <p>Both the SFC Summary Table (item 102) and the HKEx Executive Summary (item 109) were attached to the minute.</p> <p>In the minute, FTSB (Salina Yan) also mentioned, together with the advice she obtained from HKEx (Karen Lee) and SFC (Laurence Li), that about 53.2% of the companies in the Main Board were trading below \$0.5 as at end 2001. This minute did not go to the SFST (Frederick Ma)</p>
	118	<p><u>HKEx Listing Committee Meeting.</u></p> <p>The Listing Committee met for over two hours to deliberate on the proposals in the Consultation Paper. Members in general supported the proposals, including setting the minimum trading threshold at 50 cents, as the basis for consultation.</p>

Date	Serial No.	Event
		<p>Members had comments on various other proposals. They did not mention that the consultation proposals might lead to the dumping of penny stocks.</p> <p>The Committee made certain amendments to other items, and approved the Paper for public consultation.</p>
19.07.02	119	Sing Tao's article headlined that "Mandatory Share Consolidation Will Benefit Market Makers".
19.07.02 (Cont'd)	120	<p>HKEx (Karen Lee) informed SFC (Laurence Li) by telephone that Listing Committee had inserted a question into the Consultation Paper on whether a waiver from the public float requirement should be available in certain takeovers situations. Karen Lee asked whether the question had any Takeovers Code implications. Laurence Li replied that the Takeovers Code applied independently and added that he thought the waivers should not be available as a matter of principle, but, since the Listing Committee had inserted the question, the issue should also be subject to the public consultation.</p> <p>HKEx (Anne Chapman) followed up the matter with the SFC (Daisy Lai) afterwards.</p>
Sometime in the week of 15.07.02	121	<p>SFC (Laurence Li) and HKEx (Karen Lee) discussed over the telephone when HKEx would release the consultation paper. In the course of a number of discussions, the leave plans of the Chief Executive of HKEx (KC Kwong) was mentioned.</p> <p>Karen Lee mentioned that HKEx had planned to release its consultation paper on Thursday (25.7). Laurence Li then asked why not Friday afternoon, suggesting also that SFC could release its research paper on Thursday to "set the scene" for an informed debate.</p> <p>Karen Lee conveyed to Laurence Li the advice of her colleagues in the Corporate Communication Division that Friday was not generally considered appropriate for major releases because there was less media coverage on Saturdays and the news might attract less attention.</p> <p>SFC (Laurence Li) then said that, in that case, SFC would release its research paper on the quality of the Hong Kong listing market over lunchtime on 25.7 so journalists would have a few hours to digest the background facts before the HKEx's briefing (which Li still thought would be after close of business on Thursday).</p>

Date	Serial No.	Event
	122	HKEx (Karen Lee) asked SFC (Laurence Li) for a copy of the SFC' s research paper.
18.07 –23.07.02	123	HKEx worked on the final version of the Consultation Paper by incorporating comments of the Listing Committee members and fine-tuning the overall contents of the paper.
The days leading up to 25.07.02	124	<p>SFC (Laurence Li) spoke with HKEx (Karen Lee) on the telephone numerous times before release of the Consultation Paper.</p> <p>There were discussions of the importance of explaining that the 50 cents threshold was not one for delisting. Karen Lee mentioned she would emphasize that it would not be “arrive at price-line and automatic death” (到價即死).</p> <p>There were discussion regarding co-ordination of the announcement of the new listing governance structures as well as the release of the Consultation Paper and SFC' s research paper.</p>
22.07.02	125	<p>Oriental Daily News columnist (Dr. Stock) wrote that:-</p> <p><i>“Having over 120 penny stocks is a historic record. And half of the listed companies are below \$0.5. We need to know that many penny and low-price companies refuse to consolidate the shares because of sinister motives. They fear that consolidation would put the share price at a higher level, thus increasing the “room” for a fall. Or they wish to continue as low-price stocks, luring investors to see the stocks as easy to punt, so that the companies could suck money from the public shareholders.”</i></p>
23.07.02	126	<p><u>Second Special Meeting to Co-ordinate PR Roll-out Plan for SFST.</u></p> <p>Meeting by SFST (Frederick Ma) with SFC and HKEx to finalize preparations for the press conference on 24.7 to announce the package on the reform of the Listing Committee and the streamlining of listing procedures.</p> <p>The meeting agreed that SFST would preside at the press conference, and SFC Chairman, HKEx Chairman, and Chief Executive of HKEx would also participate.</p> <p>The meeting also agreed that “delisting” proposals as a subject of</p>

Date	Serial No.	Event
		<p>consultation by HKEx would only be very briefly touched upon in the opening of the press conference, and the detailed proposals would be separately announced by HKEx on 25.7. Should any journalist ask about the “delisting” proposals on 24.7, Chief Executive of HKEx would take the question.</p> <p>Members also noted that SFC’s paper on “the Quality of Market and the Case for a More Effective Delisting Mechanism” would be released by SFC on 25.7.</p>
23.07.02 (Cont’ d)	126 (Cont’ d)	<p>HKEx Chairman (Charles Lee) brought up, at the end of the meeting, his concern that SFC’s research paper might “crowd out” the news reportage on the delisting proposals. PSFS (Tony Miller) agreed and was concerned that the research paper might be considered negative. SFC (Ashley Alder and Laurence Li) said it was important to set the scene for an informed, rational debate about delisting. All agreed the SFC would release a shortened version.</p>
	127	<p>SFC (Laurence Li) e-mailed HKEx (Karen Lee) a copy of the SFC’s research paper.</p>
	128	<p>SFC (Laurence Li) e-mailed Chief Executive of HKEx (KC Kwong) another copy of the SFC’s research paper later in the day, stating that:-</p> <p><i>“I’ve also earlier indicated to Karen that we plan to hold a media lunch that day [i.e., 25.7]. Since the delisting proposals would likely affect the price of some stocks, we assume the Exchange would do its briefing after market closes ... We’ll ask our CC colleagues to contact Henry to touch base.”</i> (Note: “Henry” referred to Henry Law, Head of Corporate Communications at HKEx.)</p>
	129	<p>HKEx (KC Kwong) replied to SFC (Laurence Li), saying that Karen Lee would make contact on the arrangements for media briefing on 25.7.</p>
	130	<p>SFC (Laurence Li) and HKEx (Karen Lee) had two telephone conversations about timing of HKEx’s release of its consultation paper.</p> <p>Karen Lee said in the first conversation that she had to discuss with KC Kwong about the time, after learning from Laurence Li that SFC was going to release its research report on the same day as HKEx’s planned release. She had in mind concerns expressed at the co-ordination meeting (for the announcement of the new listing governance</p>

Date	Serial No.	Event
		<p>structures on 23.7.02) by Charles Lee and Tony Miller (item 126).</p> <p>Karen Lee then reverted to Laurence Li after consulting colleagues of the Corporate Communications Division about the arrangement, and informed him that HKEx would release its Consultation Paper after the close of the morning session the next day, and that HKEx had no views on the timing of SFC' s release of its research paper as this was a matter for the SFC.</p>
23.07.02 (Cont' d)	130 (Cont' d)	<p>In parallel, there was also discussion between the personnel of the Corporate Communications Divisions of SFC (CK Chan, Head of Corporate Communications Division) and HKEx (Lorraine Chan, Assistant Vice-President, Corporate Communications Division) about the schedule for HKEx' s press conference. SFC asked if HKEx could re-schedule its press conference for the Consultation Paper since it might clash with SFC' s news briefing and some information to be given at HKEx' s press conference might be price sensitive. Lorraine Chan, after discussing the matter with Karen Lee, informed CK Chan that HKEx would start its press briefing at 12:30 pm on 25.7.</p>
	131	<p>Apple Daily' s article headlined that "Share Price Below 50 Cents May Need to Consolidate".</p> <p>News reports on 23.7 and during the preceding week included interviews with and quotes from market practitioners; most thought 50 cents was on the high side, but none predicted that there might be a market scare.</p> <p>Penny stocks did not show signs of disorderly trading or unusual volatility over the previous week' s trading.</p>
24.07.02	132	<p>SFST (Frederick Ma) attended the LegCo Panel on Financial Affairs.</p>
	133	<p><u>Joint Press Conference Presided by SFST on the Package of Corporate Governance and Streamlining of Listing Processes.</u></p> <p>SFST, SFC Chairman, the Chairman and Chief Executive of the HKEx attended the joint press conference.</p> <p>In response to a question from a reporter, Chief Executive of HKEx confirmed that a consultation paper on proposals relating to initial listing and continuing listing eligibility and cancellation of listing would be released on 25.7.</p>

Date	Serial No.	Event
	134	HKEx (Anne Chapman) e-mailed SFC (Laurence Li), at 6:21 pm, for information, a copy of the press release on the announcement of the proposals the next day.
25.07.02	135	<p data-bbox="564 533 863 568"><u>SFC's Press Briefing.</u></p> <p data-bbox="564 618 1498 725">SFC's Corporate Finance Division held a press briefing on its research paper at 11:30 am to announce the findings of its study on the quality of the Hong Kong stock market.</p>
25.07.02 (Cont' d)	136	<p data-bbox="564 775 1490 851"><u>Chief Executive of HKEx held press briefing to release the Consultation Paper at 12:30 pm.</u></p> <p data-bbox="564 900 1490 972">Journalists were given a reading session for about an hour to digest the Consultation Paper before commencement of the briefing.</p> <p data-bbox="564 1021 1490 1196">A media lunch was arranged for journalists after the press conference. KC Kwong and Karen Lee had requested journalists to report the proposals comprehensively and avoid sensational reports and headline. They had also reinforced the following messages during the media lunch:-</p> <ul data-bbox="564 1245 1490 1406" style="list-style-type: none"> <li data-bbox="564 1245 1490 1321">● companies traded below 50 cents would not be immediately delisted; and <li data-bbox="564 1370 1222 1406">● there would be a 12-month transitional period.
	137	HKEx posted the Consultation Paper on its website after the press briefing.
	138	SFC (Laurence Li) e-mailed HKEx (Karen Lee) to request a marked-up final version of the published Consultation Paper.
	139	Trading was seen to be usual on the afternoon of 25.7.
	140	HKEx (Corporate Communications Unit) monitored the reports in the electronic media in the afternoon and noted that the opinions given on the new media by market practitioners on the proposals in the Consultation Paper were generally neutral or supportive.
	141	FS (Antony Leung) learned from the electronic media that HKEx had issued a consultation paper relating to delisting mechanism.

Date	Serial No.	Event
	142	Around midnight, SFST (Frederick Ma) received feedback from a contact that the delisting proposals in the Consultation Paper might have problems.
26.07.02	143	HKEx continued to monitor press reports on the Consultation Paper and saw no indication that the publication of the proposals would trigger a market panic or a major sell-off in low-priced stocks.
	144	Unusual movement of stocks commenced at about 10:45 am and continued for about an hour.
26.07.02 (Cont'd)	145	FSTB (Salina Yan) received reports from a trade association and the SFC that there was panic selling of low price stocks. FTSB (Tony Miller, KC AU) and the Administrative Assistant to SFST (Clara Tang) and Press Secretary to SFST (Louisa Mak) were informed immediately.
	146	At around 11am, SFST (Frederick Ma) received phone call from the same contact referred to in item 142 informing him of the plunge.
	147	SFST (Frederick Ma) told his Administrative Assistant (Clara Tang) and Press Secretary (Louisa Mak) that he had not received anything in writing about the delisting proposals. Clara Tang then pointed out that a copy of the SFC Summary Table had been submitted to him earlier on. Clara Tang then produced a copy of the SFC Table to him.
	148	FS (Antony Leung) was informed by his Administrative Assistant (Howard Lee) that the market had reacted strongly to HKEx's proposal, and that SFST had already clarified publicly that the proposal was only at the consultation stage.
	149	SFST (Frederick Ma) phoned and informed the FS of the market situation, and that he would make a further public statement later in the day to reassure the public.
	150	SFST (Frederick Ma) touched base with Chief Executive of HKEx (KC Kwong) and talked to the media to clarify that the proposals were merely proposals for public consultation.
	151	<p>HKEx despatched hard copies of the Listing Eligibility Consultation Paper to listed issuers, market practitioners and selected professional and business organisations.</p> <p>HKEx launched its reach-out programme to seek market views on the</p>

Date	Serial No.	Event
		<p>paper after release:-</p> <ul style="list-style-type: none"> • HKEx (Karen Lee) communicated with representatives of stockbrokers associations (Ms. Choi Chan Po Sum and Mr. Trini Tsang) inviting views and suggesting the holding of seminars for their members if they considered necessary; • HKEx invited listed issuers and market practitioners to attend seminars (in English, Cantonese and Putonghua) to be held on 12, 13 and 14 August 2002 to explain the contents of the Consultation Paper and solicit market views on the Paper; and
26.07.02 (Cont' d)	151 (Cont' d)	<ul style="list-style-type: none"> • HKEx provided telephone enquiry service for interested parties who might have queries on the contents of the Paper.
	152	FSTB (Salina Yan) received a copy of the Consultation Paper and a letter from HKEx (Karen Lee) inviting comments.
	153	HKEx (Doris Lee) e-mailed SFC (Daisy Lai), at 4:56 pm, summary of the significant amendments made to the Consultation Paper after the Listing Committee meeting of 18.7.
	154	<p>HKEx issued a press statement in the early afternoon:-</p> <ul style="list-style-type: none"> • The proposals were only part of a market consultation relating to the Main Board Listing Rules; • HKEx expected 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; and • If any rules on delisting of existing penny stocks were adopted, they would still be subject to a 12-month transition period before implementation.
	155	SFC issued a press statement to echo HKEx' s statement.
	156	SFST (Frederick Ma), in the evening, after consulting the Chief Executive of HKEx gave a media stand up, saying the 50 cents threshold was subject to discussion, and appealing to the public not to panic.

Date	Serial No.	Event
27.07.02	157	Chief Executive of HKEx (KC Kwong) discussed the matter with his colleagues. He then rang up SFST and SFC Chairman in the morning proposing that the 50 cents proposal be withdrawn.
	158	<p>SFST suggested to HKEx at the discussion (item 157) that the consultation period be extended.</p> <p>He also asked a contact to organize a lunch for himself and HKEx Chairman to meet with market practitioners the following day.</p> <p>In the evening, he spoke with SFC Chairman and HKEx Chairman about his concern that the plunge of penny stock prices might trigger broker defaults and wider implications on the market.</p>
27.07.02 (Cont' d)	159	<p><u>HKEx's Announcement on the Extension of the Consultation Period.</u></p> <p>HKEx announced extension of the consultation period by two months to 31 October 2002 and its plan to publish a supplementary paper on the delisting proposal, first through radio programmes in the morning, then through press release in the afternoon.</p>
	160	FS (Antony Leung) discussed with SFST (Frederick Ma) the market reaction and the need for prompt action to address the anxiety in the market during pauses in the sessions of the HKSAR Chief Executive's Retreat. (whole day).
	161	FS (Antony Leung) asked his Administrative Assistant (Howard Lee) to arrange a meeting with SFST, SFC Chairman, HKEx Chairman and Chief Executive of HKEx in the afternoon of 28.7 to discuss the way ahead. (pm).
	162	Administrative Assistant to SFST (Clara Tang) requested Salina Yan to prepare a chronology of events for SFST's reference on 29.7. (late afternoon).
28.07.02	163	FS (Antony Leung) continued to discuss with SFST about the market reaction and the need for prompt action in between sessions of the HKSARG Chief Executive's Retreat.
	164	SFST (Frederick Ma) and HKEx Chairman (Charles Lee) had a luncheon with brokers. Afterwards, HKEx Chairman suggested withdrawing Part C of the Consultation Paper (the delisting proposals).

Date	Serial No.	Event
		<p>SFST then met SFC Chairman (Andrew Sheng) in SFC's office. While noting that brokers position was in order on 26.7, SFST raised concern on the settlement in the following week. (3pm).</p> <p>SFST (Frederick Ma) saw a copy of the Consultation Paper for the first time in Sheng's office.</p>
	165	<p>FS read the relevant extract of the Executive Summary of the HKEx's Consultation Paper obtained by his Administrative Assistant (Howard Lee) from the Internet. (before 4 pm).</p>
	166	<p>Salina Yan went back to her office to work on the chronology of event requested by the Administrative Assistant to SFST (item 162) but did not have the relevant files.</p>
28.07.02 (Cont' d)	167	<p><u>Meeting at FS' Residence.</u></p> <p>Meeting amongst FS, SFST, SFC Chairman, Chairman and Chief Executive of HKEx at 4 pm at FS' residence.</p> <p>The meeting agreed to the HKEx Chairman's proposal to withdraw the delisting proposals and to hold a press conference at 6 pm to announce the withdrawal and further explain the rationale behind the proposal to allay public anxiety.</p>
	168	<p><u>Press Conference to Announce the Withdrawal of Part C of the Consultation Paper.</u></p> <p>The press conference was held by SFST (Frederick Ma), SFC Chairman (Andrew Sheng), HKEx Chairman (Charles Lee) and Chief Executive of HKEx (KC Kwong) at 6 pm to announce the withdrawal of the delisting proposals.</p> <p>At the press conference, SFC Chairman responded to a question in Cantonese which was interpreted by some later reports to the effect that the SFC had not indicated a view on the price threshold. (Note : the whole context of all the questions and answers should have made it clear that the SFC had discussed price thresholds with the HKEx.)</p>
29.07.02	169	<p>FS (Antony Leung), in response to media enquiries on his way back to the office, mentioned that HKEx –</p> <ul style="list-style-type: none"> • might not have given sufficient thoughts to the details of the

Date	Serial No.	Event
		<p>proposal;</p> <ul style="list-style-type: none"> • might have under-estimated the market reaction; and • had not informed FSTB prior to the release of the Consultation Paper.
	170	<p>Salina Yan completed the drafting of the chronology of event, under the impression that the chronology should show the overall developments since the subject of penny stocks came to the knowledge of the policy bureau. The chronology did not include the HKEx Executive Summary which she had received from HKEx (item 109) which in her view was similar to the SFC Summary Table (item 102) which she had sent to the Administrative Assistant to SFST. After passing the draft to KC Au and Tony Miller for quick comments, Salina Yan sent the chronology of events to Administrative Assistant to SFST (Clara Tang).</p>
30.07.02	171	<p>In the morning, Salina Yan realized that the HKEx Executive Summary might be regarded as material in the incident and confusion might have been caused in the reference to the term “summary”. She drew the omission from the chronology to the attention of KC Au, who was on a telephone conference with SFST. On KC Au’s suggestion, Salina Yan spoke to SFST, using the speaker phone, confirming her receipt of the HKEx Executive Summary. SFST does not recall this message.</p>
	172	<p>SFST held meeting with SFC, HKEx and his staff to prepare for the LegCo Panel on Financial Affairs meeting scheduled for 31.7.02.</p> <p>SFC Chairman (Andrew Sheng) and Chief Executive of HKEx (KC Kwong) confirmed that they had neither consulted SFST (Frederick Ma) nor sent a copy of the Consultation Paper to him before 25.7.02.</p>
	173	<p>Meeting between FS (Antony Leung), SFST (Frederick Ma) and HKEx Chairman (Charles Lee).</p>
31.07.02	174	<p>Further meeting amongst SFST, SFC Chairman, HKEx Chairman, Chief Executive of HKEx in the morning to prepare for the Special meeting of LegCo Panel on Financial Affairs scheduled for the afternoon.</p> <p>FSTB (Salina Yan), in clarifying the issue of “who knows what”, at the preparatory meeting, confirmed: -</p>

Date	Serial No.	Event
		<ul style="list-style-type: none"> • the SFC Summary Table she received on 10.7.02 had been passed to the Administrative Assistant to SFST (Clara Tang) on 17.7.02 (items 102 and 111); and • the Executive Summary of the Consultation Paper provided by HKEx (Karen Lee) on 17.7.02 (item 109), had <u>not</u> been passed to SFST's Office. (The Executive Summary was only sent to Tony Miller via KC Au on 18.07.02 (item 117).) <p>SFST (Frederick Ma) became aware that the HKEx had sent a copy of the Executive Summary of the Consultation Paper to FSTB on 17.7.02. He mentioned this to the Financial Secretary afterwards.</p> <p>At the preparatory meeting, SFST, SFC Chairman and HKEx Chairman all read out their draft speeches to be delivered at the LegCo Panel meeting. The draft of the Chief Executive of HKEx was not then complete and did not contain the chronology in his final version delivered at the Panel meeting.</p>
31.07.02 (Cont'd)	175	FS appoints an independent Panel of Inquiry to look into the Penny Stocks Incident.
	176	<p><u>Special Meeting of LegCo Panel on Financial Affairs.</u></p> <p>See detailed discussion in paras. 9.19 to 9.22 of the Main Report.</p>

Legend of Abbreviations

FS	Financial Secretary
FSB	Financial Services Bureau
FSTB	Financial Services and the Treasury Bureau
HKEx	The Hong Kong Exchanges and Clearing Ltd
SFC	Securities and Futures Commission
SFS	Secretary for Financial Services
SFST	Secretary for Financial Services and the Treasury

Persons mentioned in the chronology of events

The Financial Secretary's Private Office

Antony Leung	Financial Secretary (FS)
Howard Lee	Administrative Assistant to FS

Financial Services and the Treasury Bureau (FSTB) / Financial Services Bureau (FSB)

Frederick Ma	Secretary for Financial Services and the Treasury (SFST)
Stephen Ip	Secretary for Financial Services (SFS) (before 1.7.02)
Tony Miller	Permanent Secretary for Financial Services and the Treasury (Financial Services) (PSFS)
King Chi Au (KC Au)	Deputy Secretary for Financial Services and the Treasury (Financial Services) (DSPS)
Salina Yan	Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (Securities) PAS(FS)
Clara Tang	Administrative Assistant to SFST
Louisa Mak	Press Secretary to SFST

Securities and Futures Commission

Andrew Sheng	Chairman
Ashley Alder	Executive Director, Corporate Finance Division
David Stannard	Executive Director, Corporate Finance Division (before 01/10/01)
Laurence Li	Director, Corporate Finance Division
Charles Grieve	Director, Corporate Finance Division
Daisy Lai	Senior Manager, Corporate Finance Division
Eric Cheng	Senior Director of Surveillance, Enforcement Division
CK Chan	Associate Director and Head of Corporate Communications Division
Stephen Po	Director, Intermediaries Supervision

Hong Kong Exchanges and Clearing Limited

Charles Lee	Chairman
Ki Chi Kwong (KC Kwong)	Chief Executive
Lawrence Fok	Deputy Chief Operating Officer
Karen Lee	Executive Vice President and Head, Listing Regulation and Risk Management Unit
Keniel Wong	Senior Vice President, Listing Division
Anne Chapman	Vice President, Listing Division
Mark Bewley	Assistant Vice President, Listing Division
Doris Lee	Senior Manager, Listing Division
Henry Law	Head, Corporate Communications Unit
Lorraine Chan	Assistant Vice-President, Corporate Communications Unit