

Ms Rosalind Ma  
(For Clerk to Panel)  
LegCo Panel on Financial Affairs  
Hong Kong Special Administrative Region  
of the People's Republic of China  
Legislative Council Building  
8 Jackson Road, Central, Hong Kong

19 September 2002

Dear Ms Ma

**LegCo Panel on Financial Affairs**

I am writing in relation to your letter of 17<sup>th</sup> September on behalf of Ambrose Lau. Thank you for the invitation to represent the HKSI at the special meeting of the Panel to discuss the report of the Panel of Inquiry on Penny Stocks Incident.

The Institute was recently approached by the Independent Panel of Inquiry to provide comments from the industry regarding the Penny Stocks Incident.

In response, the Institute invited members to provide any comments they may have on the Incident, and suggestions on room for improvement in the preparation and release of similar rules and regulations in the future, including the consultation process with the public.

In summary HKSI member's comments to the Panel of Inquiry can be highlighted in the following points:

- If amendments are made to the rules, they should be implemented in a way that avoids any panic or shock to the market. Some consensus of opinion should be obtained prior to any decision to ensure that any new rules are phased in over a sensible time period.
- The quality, integrity and ability of management shareholders require improvement. The majority of shareholders take advantage by listing their corporation in return for cash. However, they still run the listed corporation like a private company.
- The process / decision should be fair to minority shareholders. How can they liquidate their stock being called for cancellation?
- How can the price level be judged if the share is cancelled?

- Penny Stocks, small stockbrokers and small investors should not be excluded from the market. A free and fair market is essential to Hong Kong.

For noting, the responses from HKSI members predominantly represent the corporate finance and investment banking sectors of the market.

Unfortunately I will not be able to attend the Special Meeting on the 20<sup>th</sup> September, and hope that the Institute's submission, representing the views of HKSI members, should be helpful to your meeting.

Please do not hesitate to contact Ms Donna Canestra on 3120 6158 or Ms Daisy Lo on 3120 6159 if you have any queries about the summary.

Yours faithfully

Gary WK Cheung