

The Listing Committee Report 2010



INTRODUCTION

1. This is the fifth calendar year report of the Listing Committee of the Stock Exchange of Hong Kong Limited (the “Exchange”). The Main Board and GEM Listing Committees have operated as a combined committee since 2003, and membership of the committees was fully unified in May 2006. In this report, the expression Listing Committee refers to the combined committees.
2. This report is an account of work of the Listing Committee for the year ended 31 December 2010.
3. It has been prepared for the board of the Exchange and the board of its parent company, Hong Kong Exchanges and Clearing Limited (“HKEx”). It will be forwarded to the Financial Services and Treasury Bureau, the Securities and Futures Commission (the “SFC”) and posted on the HKEx website.
4. The Listing Committee has no staff and no budget. The members of the Listing Committee are offered a fixed annual fee of HK\$80,000 on account of attendance at and preparation for regular, policy, disciplinary and review meetings.

MEMBERSHIP

5. The Listing Committee consists of 28 members as follows:
 - At least eight individuals who the Listing Nominating Committee (“LNC”) considers will represent the interests of investors.
 - Nineteen individuals who the LNC considers will be a suitable balance of representatives of listed issuers and market practitioners including lawyers, accountants, corporate finance advisers and Exchange Participants or officers of Exchange Participants.
 - The Chief Executive of HKEx as an ex-officio member.

	NATURE OF MEETING							
	Regular (51 Meetings)		Policy (4 Meetings)		Disciplinary (14 Meetings)		Review (6 Meetings)	
	Attended	% Attended	Attended	% Attended	Attended	% Attended	Attended	%
Current Members								
Ms. Teresa Ko ¹	34	67	4	100	1	17	1	25
Mr. Carmelo Lee ¹	43	84	4	100	2	40	2	100
Mr. John Moore ¹	36	71	4	100	5	45	0	0
Ms. Melissa Brown	28	112	4	100	4	67	3	50
Mr. Robert Bunker	27	108	3	75	8	80	2	50
Ms. Janine Canham ⁴	14	127	2	100	3	60	0	0
Mr. Vincent Chan	22	88	4	100	1	14	0	0
Mr. Roy Chen	24	96	3	75	2	29	1	50
Mr. Jack Chow	25	100	4	100	6	86	1	20
Mr. Nigel Davis ⁴	14	127	2	100	3	60	0	0
Dr. S K Fung	29	116	3	75	2	29	3	100
Mr. Stephen Hunt	22	88	3	75	6	75	3	60
Dr. Guorong Jiang	21	84	2	50	2	29	2	50
Mr. Terence Keyes	30	120	3	75	4	67	3	75
Mr. Alvin Leung ⁴	15	136	2	100	3	50	0	0
Mr. Anthony Leung	25	100	3	75	2	29	2	50
Mr. Samson Li ⁴	17	155	2	100	2	50	0	0
Mr. Liu Ting An ⁴	11	100	2	100	4	57	0	0
Ms. Mary Ma	29	116	2	50	2	33	0	0
Mr. Daniel Ng	34	136	4	100	0	0	0	0
Mr. Paul Phenix ⁴	18	164	2	100	3	50	1	100
Ms. Edith Shih	30	120	4	100	3	33	2	67
Mr. James Soutar	28	112	3	75	4	50	2	67
Mr. Richard Sun	21	84	4	100	2	40	0	0
Mr. Richard Winter	23	92	4	100	3	60	0	0
Mr. Adrian Wong	25	100	3	75	6	60	2	67
Dr. Kelvin Wong	21	84	4	100	1	13	3	75
Mr. Jamie Allen ⁵	5	36	0	0	2	67	2	100
Mr. Stephen Brown ⁵	3	21	0	0	0	n/a	1	50
Mr. Joseph Longo ⁵	12	86	2	100	0	n/a	0	n/a
Prof. C K Low ⁵	13	93	2	100	2	100	1	100
Mr. Alex Ng ⁵	14	100	2	100	0	n/a	0	n/a
Mr. Alexander Schrantz ⁵	14	100	2	100	1	100	2	100
Mr. Charles Li ¹	35	71	4	100	-	-	-	-

Notes:

1. For the chairman, deputy chairmen and the Chief Executive the percentage attendance at regular and policy meetings is calculated based on total number of meetings in the period. For other members percentage attendance is calculated based on the member attending half the meetings in the period in accordance with the pooling schedule. A percentage in excess of 100 indicates a member attending more meetings than allocated under the pooling schedule.
2. For review and disciplinary meetings, percentage attendance is based on the number of meetings a member was eligible to attend having regard to potential conflicts of interest and whether the member had attended the meeting reaching the decision that was being reviewed. The members' unavailability due to other commitments on a scheduled date has not been taken into account in the table above. The Chief Executive does not participate in review and disciplinary meetings.
3. Attendance includes participation by telephone in policy meetings and regular meetings at which policy matters were discussed
4. Members appointed on 23 July 2010
5. Members retired on 23 July 2010
6. Except where indicated members served throughout the year.
7. Mr. Charles Li is the Chief Executive of HKEx, an ex-officio member of the Listing Committee. His appointment became effective on 16 January 2010 following the retirement of Mr. Paul Chow on 15 January 2010. Mr. Chow did not attend any meetings in 2010.

ROLE AND MODE OF OPERATION OF THE LISTING COMMITTEE

6. The Listing Committee acts both as an independent administrative decision maker and an advisory body for the Exchange. It has four principal functions:
 - To oversee the Listing Division (to the extent practicable given the Committee's mode of operation).
 - To provide policy advice to the Listing Division on listing matters and to approve amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules").
 - To take decisions of material significance for listing applicants, listed companies and the individuals concerned.
 - To act as a review body (in its role as the Listing (Review) Committee) for decisions made by the Listing Division and by the Listing Committee.
7. A more detailed description of the role and mode of operation of the Listing Committee and its approach to handling conflicts of interest is set out on the website of HKEx at http://www.hkex.com.hk/eng/listing/listcomrpt/documents/LCRole_Mode.pdf.

MAIN ISSUES ARISING IN THE YEAR

8. This section contains a summary of the issues the Listing Committee has dealt with during the year which it believes will be of greatest interest to the investing public, practitioners and listed companies, and outlines the position or action the Listing Committee has taken.
9. The list of main issues represents the Exchange's effort to (i) enhance the corporate governance standard of listed issuers and align Hong Kong regulatory regime with international practices; (ii) improve market efficiency; and (iii) improve the quality of information disclosure and transparency of Exchange's practices.

Enhancement of corporate governance standard of listed issuers and alignment of Hong Kong regulatory regime with international practices

Consultation Conclusions on New Listing Rules for Mineral Companies

10. In May 2010, the Listing Committee authorised the release of consultation conclusions on new Listing Rules for mineral companies seeking to list on Main Board and the Growth Enterprise Market. The Exchange received comments from a wide spectrum of respondents, including market practitioners, listed issuers, professional and industry associations, overseas investment funds, overseas listed issuers and industry experts.
11. The new Rules which came into effect on 3 June 2010 aim to provide investors with material, relevant and reliable information, and align our Rules with global standards.

12. The new Rules affect listing applicants whose major activity is the exploration for and/or extraction of natural resources and existing listed issuers that engage in major acquisitions (i.e. 25 per cent or greater of existing activities) of mineral or petroleum assets. Under the new Rules, all mineral companies and listed issuers that make statements on mineral or petroleum reserves and resources will be required to update those statements once a year in their annual reports.
13. As at 31 December 2010, 7 mineral companies have been listed under the new Rules.

Review of the Precautionary Measures Adopted for Overseas Listed Companies Listing by way of Introduction

14. At the policy meeting held on 30 August 2010, the Listing Committee considered a review report in relation to the precautionary measures adopted for a number of listings in addressing the potential issues relating to listing by introduction of shares traded on other exchanges.
15. The Committee noted that both the SFC and the Exchange were involved in developing and agreeing to the following key measures adopted:
 - Facilitate initial liquidity of units / shares for trading by a bridging dealer arrangement;
 - Shorten the settlement gap by improving the transfer of shares between different markets where practicable; and
 - Enhance information disclosure to the market about trading on the other exchanges in the period leading up to the listing by introduction.
16. The Committee also endorsed the recommendations that the Exchange will continue to consider applications for listing by way of introduction on a case by case basis and to work closely with the SFC to review the precautionary measures adopted for companies listed by way of introduction.

Consultation on Review of the Code on Corporate Governance Practices and Associated Listing Rules

17. On 17 December 2010, the Exchange published a Consultation Paper regarding proposed changes to the Code on Corporate Governance Practices (Code) and certain corporate governance related Rules.
18. The principal objective of the review is to promote a higher standard of corporate governance, benchmarked against international best practice. Under the proposals, new Rules, Code Provisions (CPs) and Recommended Best Practices (RPBs) would be introduced. Some CPs would be promoted to Rules because of their importance and many RPBs will be upgraded to CPs.
19. The consultation paper can be viewed on the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2010124.pdf>.
20. The consultation is open for responses until 18 March 2011. The Rule and Code changes may be effective in the second half of this year.

Develop a Guide on Environmental, Social and Governance Reporting for Listed Companies

21. The Exchange is developing a Guide on Environmental, Social and Governance Reporting for issuers and has sought initial comments from various interested parties.
22. It plans to organize workshops for issuers in 2011 before finalizing the consultation paper. The aim of the workshops is to raise awareness and provide practical tools for issuers to start reporting.

Improvement on market efficiency

Consultation on Proposed Changes to Connected Transaction Rules and Requirements for Circulars and Listing Documents of Listed Issuers

23. Following market consultations in 2009 (the 2009 consultation), the Exchange published its conclusions on (i) proposed changes to connected transaction Rules and (ii) proposals to streamline requirements for issuers' circulars and listing documents. The new Rules became effective on 3 June 2010.
24. The review of the connected transaction Rules mainly addressed issues about specific requirements that were burdensome, restrictive or having unintended effect. Major amendments included:
 - Introducing an insignificant subsidiary exemption. The new Rule exempts persons connected only at the subsidiary level where the size of the subsidiary is insignificant to the issuer;
 - Increasing the de minimis thresholds
 - (i) for exemption from the shareholder approval requirement to 5 per cent for transactions with any connected persons, and
 - (ii) for exemption from announcement requirement to 1 per cent for transactions with persons connected only at the subsidiary level;
 - Revising the definitions of "connected person" and "associate" to exclude persons that are not in position to exercise significant influence on the issuer.
25. In light of the diverse market views on some of the connected transaction Rules noted in the 2009 consultation, the Exchange is now conducting a further review on the connected transaction Rules with regard to the scope of connected persons and transactions subject to the Rules. The Exchange will take into account the respondents' views in the 2009 consultation, the corporate structure of Hong Kong-listed issuers, and the developments of regulation in overseas jurisdictions. The Exchange plans to consult the market on new proposals in 2011.

26. The Committee also approved Rule amendments to streamline content requirements for issuers' documents and their despatch deadlines. The amendments made the contents of issuers' documents more relevant for shareholders and eliminated unnecessary burdens on issuers. Major amendments included:-
- For very substantial disposals, allowing the issuer to disclose the disposal target's financial information in the circular and a review of the financial information by the issuer's auditors or reporting accountants, as an alternative to the current requirement for an accountant's report on the issuer group (including separate note disclosure on the disposal target);
 - Allowing issuers to incorporate previously published information by reference;
 - Replacing the deadline for despatching circulars (other than information circulars) with requirements to disclose the expected date of despatch and any delay;
 - For listing documents of listed PRC and overseas issuers, removing disclosure and inspection requirements regarding provisions in their constitutional documents and regulatory provisions in the relevant jurisdictions; and
 - Allowing PRC issuers to despatch circulars after issuing the notice of general meeting to bring the requirement closer to that applicable to other issuers.

Review of Initial Listing Eligibility Requirements for the Main Board

Update on the waiver from Profit Test requirement

27. On 5 June 2009, the Exchange issued a news release on the circumstances in which it may consider, on a case-by-case basis, granting waivers from the Profit Test. The Exchange also stated it would review the effectiveness of the Profit Test.
28. The Exchange reviewed the profits, after listing, of 265 Main Board applicants listed using the Profit Test between 1 January 2004 and 31 December 2008. It found a high percentage of these issuers remained profitable after listing and that the Profit Test was generally a good indicator of Main Board applicants' future profitability. The Exchange decided to retain the Profit Test and continue to grant waivers from it on a case-by-case basis. An article on the Exchange's findings was published in the July 2010 Exchange Newsletter.

Consultation on proposed change to the minimum number of shareholders for the Market Capitalisation/Revenue Test

29. The Exchange also reviewed all other Main Board eligibility requirements. Market comments were that the 1,000 minimum shareholder requirement was too demanding. On 10 September 2010, the Exchange published a consultation paper proposing to change the minimum shareholder requirement for the Main Board Market Capitalisation/Revenue Test from 1,000 to 300.
30. The Exchange received 11 responses to the consultation paper, all supporting the proposal. The Exchange decided to adopt the proposal and this change took effect on 1 February 2011.

Review of the Joint Policy Statement with the SFC on Listing of Overseas Companies

31. Since the publication of the joint HKEx-Securities and Futures Commission policy statement in 2007 to provide guidance on listing of overseas companies in Hong Kong, the number of acceptable jurisdictions for an issuer's incorporation has reached 15, in addition to Hong Kong, Mainland China, Bermuda and the Cayman Islands. These jurisdictions are: Australia, Brazil, British Virgin Islands, Canada-British Columbia, Canada-Ontario, Cyprus, Germany, Isle of Man, Italy, Japan, Jersey, Luxembourg, Singapore, the United Kingdom, and the United States of America-California.
32. In December 2010, Vale SA, a Brazilian metals and mining company, became the first company from the country to list in Hong Kong and the first company to list in the form of depository receipts. Vale SA, which is listed on the stock exchange in Brazil's Sao Paulo BM&FBOVESPA, debuted on HKEx's stock exchange on 8 December, making it the fourth secondary listing on HKEx.
33. Current developments on HKEx's measures for overseas companies listed on the Exchange include the following:
 - New labelling for different categories of listings:
 - Stock short names for secondary listings must carry the suffix "S"; and
 - Stock short names for depository receipt listings must carry the suffix "DR".
 - New secondary listed companies must disclose, through the HKEx website upon their listing, the Listing Rule waivers they obtained, their constitutive documents, a summary of applicable laws and regulations and any other information requested by the Exchange. The information should be updated annually.
 - New facilities and materials on the HKEx website to enable easy search of information about listed companies from overseas and the associated risks of investing in them.
34. As more overseas companies seek to list on the Exchange, there is a need to administer the equivalence test under the Listing Rules ¹ practically when assessing shareholder protection standards under overseas regulatory regimes. The focus takes into account the suitability of the particular overseas companies as well as the suitability of overseas jurisdictions. The Committee continues to work on streamlining suitable overseas listings.

Proposed Changes to Requirements for Listing of Debt Issues for Professionals Only

35. On 17 December 2010, the Exchange published a consultation paper on Chapter 37 of the Rules dealing with debt securities offered only to professional investors. The proposals present the Rules in more accessible language; align the definition of professional investor in the Rules with that in the Securities and Futures Ordinance; leave the existing issuer eligibility criteria broadly unchanged; simplify application and approval procedures; replace the current prescribed disclosures for listing documents with a requirement to include information that is customary for offers of debt securities to professionals; and remove continuing obligations on issuers that are not appropriate for professional only offers.

¹ Notes to Main Board Rules 19.05(1), 19.30(1) and Note to GEM Rule 24.05(1).

36. These changes will bring HKEx more into line with the requirements of other stock exchanges and allow the Exchange to offer processing times comparable to those exchanges. None of the proposals will apply to debt offered to retail investors. The consultation ended on 18 February 2011.

Update on the Post-Vetting Regime

37. The post-vetting regime was implemented on 1 January 2009 following market support in the consultation in 2008. The Exchange adopted a phased approach to shifting its regulatory focus from pre-vetting announcements to reviewing and monitoring after publication. From 1 January 2010, the Exchange ceased to pre-vet announcements for major and connected transactions (Phase 2 Announcements) under Phase 2 of the post-vetting regime.
38. The Exchange's experience with the new regime has been positive with satisfactory Rule compliance record. Of the Phase 2 Announcements subject to detailed vetting, a large majority required no follow-up enquiries or no further action after the Exchange's initial enquiries.
39. During the period under review, only 1 per cent of issuers' announcements were pre-vetted. They related to significant transactions involving reverse takeovers, cash companies and sufficiency of operations or assets or where the Exchange and the issuers had different views on Rule interpretations. As publication of these announcements by issuers without pre-vetting by the Division could cause significant market uncertainty, the Exchange considered it desirable to continue to pre-vet these categories of announcements for the time being. The Exchange will continue to monitor the market situation before implementing the final phase of the post-vetting regime.

Reverse Takeovers (RTOs)

40. During the year, the Listing Committee reviewed the Division's approach in applying the reverse takeover Rules and handling backdoor listing transactions, inactive companies and cash shells.

Application of the RTO Rules

41. The RTO Rules are designed to ensure that the initial eligibility requirements cannot be circumvented. They contain bright line tests (Rules 14.06(6)(a) and 14.06(6)(b)) which apply to specific forms of reverse takeover. There is also a definition of "reverse takeover" in Rule 14.06(6) that may apply to a backdoor listing which represents, in the Exchange's opinion, an attempt to list assets/businesses and to circumvent the new listing requirements. A transaction that falls within the definition but outside the bright line tests may be treated as an RTO.
42. The Committee endorsed the practice of applying the RTO Rules to extreme cases with the Division bringing borderline cases to the Committee for its consideration and the Division's initiatives to improve investor protection through better disclosure in circulars and a more vigorous vetting approach.
43. The Committee noted that:
- The current approach to assess whether a backdoor listing transaction is an "extreme" case is based on a number of factors including:
 - the size of the acquisition relative to the size of the issuer;

- the quality of the acquired business – whether it can meet the trading record requirements for new listings, or whether it is unsuitable for listing (e.g. any early stage exploration company);
 - the nature and scale of the issuer’s business before the acquisition (e.g. whether it is a listed shell);
 - any fundamental change in the issuer’s principal business (e.g. the existing business would be discontinued or very immaterial to the enlarged group’s operations after the acquisition); and
 - other events and transactions (historical, proposed or intended) which, together with the acquisition, form a series of arrangements to circumvent the RTO Rules (e.g. a disposal of the issuer’s original business simultaneously with a very substantial acquisition).
- The Division presented borderline cases to the Committee where the acquisitions were considered extreme. However, the acquired businesses were able to meet the track record requirements for new applicants, so circumvention of the new listing requirements was not a material concern. The Committee agreed in those cases that the purpose of the RTO Rules was satisfied and agreed not to treat the acquisitions as new listings. The issuers were required to prepare transaction circulars under an enhanced disclosure and vetting approach.
 - Where transactions appear to be backdoor listings but the Division does not consider them extreme, they would not be treated as new listings. For these cases, the Division would apply an enhanced disclosure and vetting approach.
 - Between August 2009 to July 2010, 62 proposed transactions were identified to have characteristics of backdoor listings, of which 5 cases were considered extreme and to be treated as new listings, and 2 were borderline cases where the Committee agreed not to treat them as new listings.
 - The Exchange published a new series of listing decisions relating to backdoor listings in July 2010 to provide guidance to the market on the application of the RTO Rules.
44. The RTO Rules are anti-avoidance provisions to prevent circumvention of the IPO requirements. As such, they involve an application of judgment and the existing practice is to fully apply the RTO Rules to extreme cases.
45. The Committee considered that the current approach in handling backdoor listing transactions balances shareholders interests and the need to maintain market quality. Only extreme cases would be treated as new listings. For other cases, the Rules protect shareholders by requiring shareholders approval of the acquisitions, and the enhanced disclosure approach generally improves information available to shareholders and brings the disclosure closer to the IPO standard.

46. The Committee endorsed the current approach with some fine tuning to address practical issues identified:

- Acquisitions of new businesses or assets – Exchange experience has shown that enhanced disclosure is less meaningful for acquisition of new businesses or assets that have no track records or have yet to commence operations. In these cases, there is a limit in the level of disclosure that can be made. These would be more likely to be treated as new listings.
- Substantial write down in the value of the acquired business or assets – In a number of cases, significant impairment losses on goodwill and/or intangible assets acquired were reported in the issuers' accounts shortly after completion of the acquisition. It was possible that in some cases, the acquisition prices were inflated or there might be misappropriation of assets through the acquisitions. Where any subsequent write downs in value raise legitimate concerns about possible breach of rules or other regulations, they would be dealt with through enforcement action.
- In some cases, the goodwill impairment was due to different valuation methodologies used at the time of the acquisition and for the annual accounts, or differences in management assumptions applied. Significant write downs shortly after the acquisition could cause shareholder confusion. The Division would require issuers to improve disclosure in their circulars any potential impairment of goodwill, taking into account valuations of the acquired businesses prepared following the accounting standards for impairment and reviewed by the auditors.

47. The Exchange does not propose to change the RTO Rules at this stage until it has developed a more comprehensive approach in handling backdoor listings in the light of further operational experience.

Review of Ex-entitlement Trading and Shareholder Approval

48. On 17 December 2010, the Exchange published a Consultation Paper on Ex-entitlement Trading and Shareholder Approval. The paper sought views on whether shares should be traded ex-entitlement only after the entitlement has been approved by shareholders. The proposed changes aim to remove the risk of uncertainty arising from ex-entitlement trading and thus enhance the operation of our securities market. The consultation ended on 28 February 2011.

Consultation on Proposed Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures

49. On 10 September 2010, the Exchange published a Consultation Paper on Proposed Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures. Qualified Property Acquisitions refer to acquisitions of government land by listed property developers through public auctions or tenders in Hong Kong. They are exempt from certain notifiable and connected transaction requirements such as shareholders' approval.

50. The proposals were to:

(I) Modify the Qualified Property Acquisition exemption, including

- extending the exemption to cover Mainland government land acquisitions by property developers;
- removing or modifying certain existing exemption conditions that are considered to be impractical or burdensome;
- accelerating the disclosure of information relating to the formation of joint ventures for Qualified Property Acquisitions to time of the transaction in the announcement;
- exempting Qualified Property Acquisitions from preparing property valuation reports; and

(II) Introduce an exemption for formation of joint ventures, including

- exempting the formation of a joint venture from being treated as a notifiable transaction if it is engaging in a single-purpose project of a revenue nature to the issuer and in its ordinary and usual course of business.

51. The proposals were well-received by the market. The Listing Committee approved the Rule amendments with minor modifications based on suggestions from the respondents. The Exchange published the consultation conclusions on 21 January 2011.

Interim Guidance and Possible Consultation on the Placing Guidelines and Pre-IPO Investments

52. The Listing Committee considered two cases where the pre-IPO investment agreements were signed on the date of submission of the listing application forms with settlement taking place close to the Listing Committee hearing date. The prices were at a deep discount to the IPO price. The pre-IPO investors would have received much more favourable terms than investors at the IPO stage.

53. In both cases, the Listing Committee decided, after carefully considering the terms and circumstances of the pre-IPO investments, that they contravened the Listing Rule principles that the issue and marketing of securities must be conducted in a fair and orderly manner and all holders of securities must be treated fairly and equally. The Listing Committee considered that the investments should be retracted or the listing timetable should be extended so that the pre-IPO investors would be exposed to risks significantly different from those assumed by investors investing at the IPO stage.

54. On 13 October 2010, the Listing Committee gave interim guidance on pre-IPO investments pending consideration of possible amendments to the Listing Rules. This aimed to provide more clarity on the terms of pre-IPO investments that are acceptable to the Exchange.

55. Under the interim guidance, the Exchange will generally require, except in very exceptional circumstances, that pre-IPO investments must be completed either (a) at least 28 clear days before the date of the first submission of the first listing application form or (b) 180 clear days before the day of trading of the applicant's securities. Pre-IPO investments are considered completed when the funds are irrevocably settled and received by the applicant.

56. Potential applicants are encouraged to consult the Listing Division before submission of listing applications if they have any questions. The press release can be downloaded from the HKEx website at <http://www.hkex.com.hk/eng/newsconsul/hkexnews/2010/101013news.htm>.

Consultation on Proposed Changes to Property Valuation Requirements

57. In 2008, the HKEx Board engaged a consultant to conduct a strategic review of the Listing Rules and their application. The consultant commented that the current property valuation requirements that an applicant must include valuation information on all its property interests in its prospectus could be unnecessarily costly and unduly burdensome for applicants. It recommended that they be removed for non-property company applicants. Market practitioners share the view that it may be overly burdensome and often irrelevant to value every property interest and to disclose the valuation reports in listing documents.
58. On 3 December 2010, the Exchange and the SFC published a joint consultation paper on proposed changes to property valuation requirements for applicants and issuers.
59. The objectives behind the proposals are to remove unnecessary burden on applicants and issuers and to require meaningful disclosure to enhance the quality of information provided to investors.
60. The joint consultation paper and new release can be downloaded from the HKEx website at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201012.pdf> and <http://www.hkex.com.hk/eng/newsconsul/hkexnews/2010/101203news.htm>. The consultation period ended on 11 February 2011.

Mixed Media Approach

61. Environmental concerns and the development of the Internet have prompted the Exchange to consider changes to the Listing Rules requiring issuers to submit hard copies of documents.
62. In November 2010, the Committee authorised the Exchange to release, jointly with the SFC, consultation conclusions to adopt the proposal to allow, subject to conditions in a class exemption under the Companies Ordinance, share and debenture issuers to issue paper application forms without paper prospectuses when conducting public offers. On same rationale, waivers will be granted by the SFC to issuers of SFC-authorised collective investment schemes seeking to list on the Exchange.
63. The class exemption is not designed to remove hard copies entirely, but it sets the stage for moves towards a paperless environment as investors become familiar with online versions.
64. An issuer who chooses to conduct a mixed media offer must make an online prospectus available on the HKEx website and the issuer's own website. Free copies of the paper prospectus must also be available at specified locations for investors who request one.
65. The Class Exemption Notice took effect on 1 February 2011 when the related Rule amendments also became effective.

Closer Co-operation with Other Overseas Stock Exchanges

66. HKEx has taken initiatives to develop closer cooperation with other exchanges where Hong Kong listed issuers are dually listed. This forms part of HKEx's core strategy to attract new listings from Greater China or with a China orientation and from other strategically important international markets. This approach will encompass working with regulators and other stakeholders to continually streamline the listing process and improve market standards and practices, while maintaining its quality standards.
67. In 2010, HKEx discussed with two overseas exchanges on the signing of memoranda of understanding to enhance the regulation of dually listed issuers and maintain the integrity of both markets. The memoranda would cover arrangements to develop channels of communication with these exchanges for the purpose of assisting in the maintenance of orderly markets, and coordinate trading suspension and resumption. An MOU with Bolsa de Valores, Mercadorias e Futuros was signed in November 2010 in contemplation of the first Hong Kong listing of a Brazilian listed company.

Closer Co-operation with Shanghai Stock Exchange

68. In January 2010, HKEx and the Shanghai Stock Exchange (SSE) issued a joint statement to strengthen information sharing and regulatory co-operation. Under the statement, the Division and the SSE's Company Management Department established a mechanism for regular dialogues in order to more effectively regulate issuers and securities listed in both markets and better protect shareholder interests.
69. During 2010, the Listing Division and SSE discussed issues about coordinating trading suspension and resumption of A+H issuers, sharing price sensitive information relating to these issuers, and compared regulatory requirements including Rules on issuers' connected transactions and disclosure of profit forecasts.
70. To minimize unnecessary burdens on issuers from complying with two sets of listing requirements, the Exchange implemented amendments to the Listing Rules in 2010 to harmonize the Listing administrative practices between the two exchanges. These amendments included (i) simplifying disclosure requirements in PRC issuers' listing documents; (ii) allowing PRC issuers to dispatch circulars after issuing the notice of general meeting to bring the requirement closer to that applicable to other issuers; (iii) proposing extension of the qualified property acquisition exemption when acquiring state owned land through Mainland land auctions; and (iv) accepting Mainland accounting standards, auditing standards and audit firms for the purpose of the Listing Rules.
71. The Exchange also issued new or updated guidance on administrative concessions/interpretation provided through publication of various Listing Decisions, including accepting Mainland qualified valuers to prepare valuation reports on Mainland properties and dispensing with the class meeting requirements under Rule 19A.38 in some circumstances.

Guidance on Release of Overseas Regulatory Information

72. In December, the Listing Committee reviewed Main Board Rule 13.09(2) (the **Rule**) and practices on publication of overseas regulatory announcements (**ORAs**) by issuers.

73. Under the Rule, a dually listed issuer must release all overseas regulatory information in Hong Kong at the same time the information is required to be disclosed to other stock exchanges. The note to the Rule states that “*this includes any information released by a subsidiary of the issuer to another stock exchange on which that subsidiary is listed or another market, if that information is discloseable by the issuer under this Chapter*”. In addition, the Exchange’s guidance letter of 28 October 2004 requested issuers to release in Hong Kong all information released by their overseas listed subsidiaries to other markets.
74. The purpose of the Rule is to minimize regulatory differences by requiring issuers to provide the same information at the same time to shareholders trading on the Exchange as it is available in other exchanges. This is an additional requirement to the general disclosure obligation under Rule 13.09(1) which requires all material information that is or may be price sensitive to be disclosed by issuers.
75. The review was conducted in light of the increase in number of dually listed issuers and overseas listed subsidiaries. It also addressed some market comments that the requirement for issuers to publish all information released by their overseas listed subsidiaries to other markets was onerous.
76. The Listing Committee agreed that publication of a subsidiary’s overseas regulatory information, as required by the 2004 guidance letter, is overly burdensome and may not be useful to the issuer’s shareholders if the information is immaterial to the issuer. If the information released by an overseas listed subsidiary is material to the issuer, it would be disclosed by the issuer under the general disclosure obligation.
77. The Listing Committee decided to withdraw the 2004 guidance letter. For overseas regulatory information released by an issuer’s listed subsidiary, publication on the Exchange’s website is required only if the information is discloseable by the issuer under other parts of the Rules, for example, the general disclosure obligation in Chapter 13, or the notifiable and connected transaction requirements in Chapters 14 and 14A (as set out in the note to Rule 13.09(2)). Overseas regulatory information released by dually listed issuers must be simultaneously published on our website under Rule 13.09(2).
78. The Listing Committee also considered the language requirement for publishing ORAs on the Exchange’s website. Under the current practice, ORAs are published in English or Chinese or in both of these languages (as specified in FAQs Series 3 – No. 50 and No. 56). Since the publication of the Joint Policy Statement regarding the Listing of Overseas Companies in 2007, the Exchange has accepted a number of new jurisdictions as issuers’ places of incorporation, some of which may not use English or Chinese as their home languages.
79. The Listing Committee considered it appropriate to continue the current practice in allowing issuers to publish ORAs under the Rule in English or Chinese or in both of these languages. If dually listed issuers release regulatory information in other markets in languages other than English and Chinese and they have difficulty in meeting our requirement, the Exchange will consider the circumstances of each case and assess any waiver application on its merits.
80. Following the Listing Committee’s policy direction, the Division issued a new guidance letter on the Rule on 21 January 2011 which superseded the 2004 guidance letter.

New Measures to Raise Investors' Awareness of Synthetic Exchange Traded Funds

81. A synthetic Exchanged Traded Fund (ETF) uses financial derivative instruments to track index performance. HKEx and the SFC jointly introduced new measures allowing investors to more easily distinguish synthetic ETFs from other ETFs before making investment decisions.

Addition of a marker to stock short names of synthetic ETFs

82. From 22 November, 2010, a marker "X" was placed at the beginning of the English and Chinese stock short names of all listed synthetic ETFs. The stock short names of traditional ETFs remain the same. This makes synthetic ETFs more visible on HKEx's securities trading system stock pages, on the HKEx website and the HKExnews website.

Annotation of synthetic ETFs name in communications

83. From 16 January 2011, synthetic ETF managers are required to put an asterisk (*) and an annotation in English or Chinese ("*This is a synthetic ETF") after a synthetic ETF's name wherever it appears in offering documents, marketing materials, notices and other communications with Hong Kong investors.

Investor education

84. HKEx and the SFC updated their respective education materials to explain the purpose of the stock short name marker and the risks of ETFs using synthetic replication.
85. HKEx also enhanced HKEx website disclosure of ETF product features and provided easier navigation to ETF websites.

Guidance on disclosure of price sensitive information by ETF managers

86. On 18 November 2010, the SFC and HKEx jointly issued a circular containing a list of potential events that may trigger an ETF's ongoing disclosure obligations under the Code on Unit Trusts and Mutual Funds and/or its Listing Agreement. This was done to help ETF managers comply with these requirements.

Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Issuers Incorporated in the Mainland

87. In December 2010 the Exchange published its Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong.
88. Under the proposed framework, which was a joint effort of the Hong Kong regulators (i.e. the Financial Services and the Treasury Bureau, the Securities and Futures Commission, the Financial Reporting Council, the Hong Kong Institute of Certified Public Accountants and the Exchange) and Mainland regulators, the Exchange will:-
- allow Mainland incorporated companies listed in Hong Kong to prepare their financial statements using Mainland accounting standards;
 - allow Mainland audit firms endorsed by the Mainland authorities to service these issuers using Mainland auditing standards; and

- provide for a reciprocal arrangement to allow companies incorporated or registered in Hong Kong and listed on the Mainland to prepare their financial statements using Hong Kong Financial Reporting Standards or International Financial Reporting Standards and be audited by Hong Kong audit firms using Hong Kong Auditing Standards or International Standards on Auditing.
89. The related Listing Rule amendments came into effect on 15 December 2010. The new Rules will provide Mainland incorporated companies listed in Hong Kong with an option to prepare their financial statements using Mainland accounting standards and have them audited by endorsed Mainland audit firms using Mainland auditing standards. This is expected to increase market efficiency and reduce compliance costs of Mainland incorporated companies listed in Hong Kong, while at the same time maintaining adequate safeguards for investor protection.

Improvement on the quality of information disclosure and transparency of Exchange's practices

Possible Changes to the Listing Rules Arising from the SFC's Consultations on Structured Products and Selling Practices, and Reforms to the Prospectus Regime

90. The Committee will review the SFC's Consultation Conclusions on Structured Products and Selling Practices and Reforms to the Prospectus Regime. Where appropriate the Rules in respect of listed structured products will be amended to align them with requirements applicable to unlisted products.

Potential Consequential Amendments to the Listing Rules from the Proposed Statutory Backing on Continuing Disclosure Obligations

91. If the Government's proposal to make statutory the obligation to disclose price-sensitive information is passed into law, there may be consequential amendments to the Listing Rules and in particular, Main Board Rule 13.09(1) (GLR17.10) and the notes thereto.
92. The current intention is that the majority of the existing Rule 13.09(1) will be deleted and in particular, Main Board Rules 13.09(1)(a) and (c) (and their GLR equivalents) which closely mirror what will become the statutory obligation under the amended Securities and Futures Ordinance. Under the new regime, the SFC will be the enforcement authority for the statutory disclosure requirement on price sensitive information, and will carry out investigation and pursue follow-up proceedings of the cases with investigatory power under the Securities and Futures Ordinance.
93. The normal public consultation process will be followed before any Rule changes are made.

Review of Information on "Trading Screen" and Arrangement with Vendors

94. The Exchange solicited views from brokers and information vendors on the current display of corporate actions related information on the free-text field of the Exchange's trading terminals. It was noted that the free-text field containing corporate actions related information and the closing price adjustment information is widely distributed to brokers' terminals and vendors' terminals for reference by the general public. The Listing Division also considered other alternatives including outsourcing service to disseminate free-text information. Based on our analysis, maintaining status quo over the current free-text information display will be of the best interest to investors.

95. The Listing Division will continue to review the process flow to streamline and automate the existing manual operations in improving the quality of information display and operational efficiency.

MEETING STATISTICS AND ACTIVITIES

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

Number of Meetings	Nature of Meeting		Average Number of Members in Attendance	
	2010	2009	2010	2009
Regular Meetings:				
– With regular business only	39	30	13.8	12.7
– With policy items	12	15	18.8	18.1
Total	51	45	14.9	14.5
Review Meetings (*excluding reviews by Listing Appeals Committee)	6	5	6.5	7.0
Disciplinary Meetings	14	5	6.2	7.0
Quarterly and ad hoc policy meetings	4	4	24	24.5
Total	75	59		

APPROVAL OF NEW LISTING APPLICANTS

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

Meetings at which IPO applications were considered	2010	2009
Meetings Within the Regular Schedule	47	32
Specially Convened Meetings	1	1
Listing Applications considered by the Listing Committee	2010	2009
Applications Considered (see note 1 below)	125	75
Applications Approved (see note 2 below)	122	74
Decisions Deferred Pending Further Information	3	1
Applications Subsequently Listed to 31st December	102	58

Notes: (1) In 2009 includes a Very Substantial Acquisition and reverse takeover treated as a new listing application. It also includes an application for listing on GEM that had initially been considered before the new GEM Rules came into force on 1st July 2008. The applicant had been granted a waiver to allow its application to be considered under the old GEM Rules.

- (2) In 2010 includes an application that was initially rejected and later approved following a restructuring of the application and also an application which was approved and lapsed and subsequently approved again. In 2009 includes a GEM application as described above.

CANCELLATION OF LISTING OF LISTED ISSUERS

98. The power to approve the cancellation of listing of securities (“delisting”) rests with the Listing Committee. Main Board companies may be delisted under the three-stage process set out in Practice Note 17 of the Listing Rules. They may also be delisted under Chapter 6 of the Main Board Listing Rules. GEM Listing Rules 9.14 to 9.18 deal with the delisting of GEM companies.
99. The Listing Committee’s approval is required to place a Main Board company in the third stage of the delisting procedures according to Practice Note 17 of the Listing Rules, to give a Main Board or GEM company notice of the Exchange’s intention to delist the company, or to cancel the listing of a Main Board or GEM company. The Listing Committee’s decision to delist a Main Board or GEM company may be subject to review by the Listing (Review) Committee and, in turn, also the Listing Appeals Committee.
100. Statistics in relation to delisting matters considered at the Listing Committee’s regular meetings are set out below:

Nature of decision (note 1)	Number of cases	
	2010	2009
Main Board		
Issuer to be placed into third stage of delisting procedures		
– Without issuer having submitted resumption proposal	5	–
– After rejecting resumption proposal as not viable (note 2)	4	2
Issuer to be given notice of intention to delist under Rule 6.10	–	–
Listing to be cancelled without issuer having submitted resumption proposal	–	–
Listing to be cancelled after rejecting resumption proposal submitted as not viable (note 3)	1	1
Trading to be resumed	1	3
GEM		
Issuer to be given notice of intention to delist under GEM Rule 9.14	1	–
Listing to be cancelled without issuer having submitted resumption proposal	–	–
Listing to be cancelled after rejecting resumption proposal submitted as not viable	–	–
Trading to be resumed	–	1

Notes:

1. Unless otherwise indicated these decisions were not appealed against.
2. One of the decisions in 2009 was appealed against and upheld on review in 2010.
3. The decision in 2009 was appealed against. The Listing Appeal Committee decided to allow the company to resume trading under the appeal process in 2010. The decision in 2010 was appealed against and the case would be heard in 2011.

101. During the year, the Listing Committee rejected a number of resumption proposals submitted by long-suspended companies. These proposals fell short of the Exchange's expectation that the business should be a business of substance and the business model should be viable and sustainable in the longer term.
102. A number of companies submitted plans involving cash injection from incoming investors and activation of trading businesses. The trading businesses were not credible in some cases, involving indent sales, low margins and being loss making for the most part. They were not viable business models. Some resumption proposals involved acquisition of businesses to increase the level of operation. The historical profitability of the acquisition targets was low. The size of operations was insufficient to support that the enlarged group would reach a meaningful scale of operation and justify a listing.
103. Most of the resumption proposals did not include sufficient details to support viability of the business models or achievability of the profit forecasts. In some cases, the proposals did not clearly explain the business models. In other cases, there was a lack of information to bridge the gap between the historical track records (of existing business and/or the acquisition targets) and the profit forecasts. Some resumption proposals relied on future business plans. However, the plans were at a preliminary stage with no track record to demonstrate the companies' ability to generate a sustainable level of profits. The Committee did not view the profit forecasts as having a high degree of credibility.
104. Some resumption proposals involved issuance of new shares and convertible securities to incoming investors as a result of which the shareholding interests of existing minority shareholders would be substantially diluted. The Committee took into account the benefit of the proposals to minority shareholders in assessing resumption proposals. It viewed negatively cases where there was material dilution in minority shareholders' interests, as any recovery to them would be insignificant.
105. Where the resumption proposals involved very substantial acquisitions from third parties independent of the incoming investors, the Exchange would not apply reverse takeover Rules to acquisition of businesses in the same line as the companies' original businesses before suspension.

OTHER REGULAR BUSINESS

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

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

Nature of decision/advice sought	Number of cases	
	2010	2009
Requests for pre-application guidance from potential IPO applicants	14	9
Approval for a voluntary withdrawal of listing	6	10
Determination that a transaction was not a reverse takeover	5	1
Determination that a transaction was a reverse takeover	1	–
Approval of an issuer of structured products	4	1
Approval for listing of debt securities not delegated to the Head of Listing	1	2
Approval of resumption proposal	1	–
Approval of an application for a review of a decision under Rule 2B.15	1	–
Approval of waiver under Rule 10.08	1	–
Eligibility of an auditor under Rule 19.20(2)	1	–
Direction of resumption of trading under Rule 6.07	–	1
Eligibility of an individual to be a director	–	1
Eligibility of an entity to be an Independent Financial Adviser	–	1
Approval of waiver to reduce the public float of an issuer	–	1
Rejection of waiver of placing guidelines in an IPO	–	1
Guidance on connected transaction waiver	–	1

REVIEW MEETINGS

108. The Listing Committee considered six (2009: five) requests for reviews of decisions made by the Listing Division or Committee during the year, some of which related to decisions that had been made in the previous year. The Listing Appeals Committee considered one (2009: two) requests for reviews. Details of these reviews are set out in the table below.

Appeal Committee	Decision made by	Nature of Decision	Number of Cases	Outcome as at 31 December 2010
Listing Appeals Committee	Listing (Review) Committee	Cancellation of listing following the rejection of a resumption proposal	1	Overturned
Listing (Review) Committee	Listing Committee	Determination that the prior approval of shareholders was required for a transaction	1	Upheld
		Cancellation of listing following the rejection of a resumption proposal	1	Upheld
		Placing a company into the third stage of the delisting procedures	1	Upheld
Listing Committee	Listing Division	Rejection of application to list additional shares	1	Overturned
		Determination that arrangements to approve a possible disposal of assets did not comply with the Rules	1	Upheld
		Determination that a transaction was a reverse takeover and hence to treat the company as a new listing applicant	1	Upheld

109. As at 31 December 2010, there were four cases under review as follows:

Appeal Committee	Decision made by	Nature of Decision	Number of Cases
Listing Appeals Committee	Listing (Disciplinary Review) Committee	Disciplinary sanction (note 1)	1
Listing (Review) Committee	Listing Committee	Cancellation of listing following the rejection of a resumption proposal	1
	Listing Committee	Determination that a transaction was a reverse takeover and hence to treat the company as a new listing applicant	1
Listing Committee	Listing Division	Determination that a holding announcement in respect of a very substantial acquisition did not contain sufficient information to allow a resumption of trading	1

Note 1: The Listing Appeals Committee met in May 2009 to consider this matter. That meeting was adjourned pending the outcome of legal proceedings being instigated by the SFC.

DISCIPLINARY MEETINGS

110. Disciplinary matters are generally dealt with at specially convened meetings of the Listing Committee. For contested disciplinary actions, written representations are central to the process. A typical case will involve two rounds of written submissions from the Listing Division and from those alleged to have breached the Listing Rules (the listed issuer and/or its directors). At the hearing the Division and those against whom action is being brought are permitted to make oral representations to supplement their written submissions and Listing Committee members may ask questions of any party or its legal representative present at the meeting. The parties may thereafter make closing submissions.
111. For agreed disposal of disciplinary matters, a settlement proposal as agreed between the Listing Division and the relevant parties is tabled before the Listing Committee at a meeting for the Committee to consider and where appropriate, to endorse. All settlements are subject to the Committee's approval. To further enhance transparency and to ensure procedural fairness, all the parties to the disciplinary action are invited to attend the meeting at which the settlement proposal is considered, and the Committee may ask questions of the parties present regarding the proposed settlement.
112. The Listing Division has focused its resources on pursuing the most blatant and serious breaches of the Listing Rules with a view to utilising its existing resources to the best regulatory effect. These breaches tend to be cases where some form of public sanction will be sought against the listed company and/or directors. The enforcement strategy of the Exchange towards listed companies and their management is fully explained in both Chinese and English on the Exchange website.
113. The range of sanctions available to the Listing Committee under the existing enforcement regime is limited. The sanctions available are in the main shaming and reputational in character with a major distinction between those with publicity attached and those which remain in the private domain. This must be contrasted with the range of behaviour and conduct and differing roles of individuals who are the subject of disciplinary action. The narrow compass of sanctions available gives rise to considerable challenges in their fair application between the sometimes large number of individuals involved with their differing levels of culpability and an outcome which reflects the expectations of the Exchange and the market from the limited range available.
114. An analysis of the nature of the alleged breaches of the Listing Rules considered by the Listing Committee (whether in the disciplinary actions or by way of approved settlement) is set out below. Some of the cases mentioned have been the subject of a first and then a review hearing by the Committee.
115. During 2010 Listing Enforcement has referred 8 cases, which may include egregious breaches of the Listing Rules, to the statutory regulator for consideration of possible enforcement action. If appropriate, disciplinary action may be brought before the Listing Committee at the conclusion of any action brought by the statutory regulator in respect of those matters in due course.

116. The Listing Committee has also noted that the Listing Division has continued to take a number of steps to identify serious breaches of the Rules and dispose of less serious cases earlier by, for example, warning or taking no action if appropriate. These steps, taken in line with established criteria published on the Exchange website (<http://www.hkex.com.hk/eng/newsconsul/newsltr/2004/documents/2004-10-02-e.pdf>) and with the overall objectives outlined in paragraph 112 above, have served to substantially reduce the backlog of cases to be dealt with and the number of cases to be heard this year.

Nature of Alleged Breach of Listing Rules	Meetings	Cases
Misstatement or misleading information in announcements	2	1
Failure to disclose price sensitive information	5	5
Failure to obtain shareholder approval for major transactions or very substantial acquisitions	5	2
Share repurchases at price exceeding price limit	1	1
Total	13	9

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

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

Outcome	No. of Cases
Public Sanction – published in period	8
Private Sanction – made in period	1
Total	9

118. The collective and individual responsibility of directors for compliance is a cornerstone of the current enforcement regime. This obligation is refined by the application of the personal undertaking given by directors to the Exchange to procure compliance of listed companies with the Listing Rules encompassing due responsibility of ensuring substantive compliance with the Listing Rules and creating the conditions for compliance. Developing the broad enforcement themes mentioned above, action has been taken where appropriate against both executive and non-executive members of the board. The table below provides more detail and encompasses the outcomes of both public and private action at different levels against all directors who have been involved in disciplinary action before the Listing Committee.

	2007	2008	2009	2010
Number of EDs against whom action was taken as a result of contested or settlement cases	48	67	20	30
Number of NEDs against whom action was taken as a result of contested or settlement cases	20	17	10	4
Number of INEDs against whom action was taken as a result of contested or settlement cases	18	26	16	18
Total	86	110	46	52

119. In addition, ongoing disciplinary actions concern a further 27 directors holding either executive or non-executive office.
120. Further, continuing a theme established in recent years, the Listing Committee has, in addition to imposing public and private sanctions to punish past conduct by listed issuers and their management, deployed its powers to require listed issuers and their management to take remedial action to rectify breaches of the Listing Rules and improve corporate governance. Such directions have, for example, imposed training requirements and an obligation to retain external assistance to create an internal control review.
121. A number of the cases considered by the Listing Committee during the year illustrate the importance of (a) issuers' taking steps to ensure that they have adequate and appropriate systems in place and (b) directors having proper understanding of the Listing Rule requirements to ensure that the issuers can meet their obligations to disclose price-sensitive information including in particular, any significant changes in their financial and business performance in a timely manner. In addition, certain cases have emphasized the Exchange's views on senior management responsibility with regard to compliance systems.
122. The Exchange continues to expect directors, as senior management, to take responsibility for ensuring that listed companies identify Listing Rule compliance risk, have appropriate systems and controls in place to mitigate these risks and ensure that the systems and controls work in practice. Where deficiencies are uncovered prompt remedial action will be important. Some listed companies expect that when they self-report compliance failings there should be no further regulatory action. Self reporting cannot automatically lead to no sanction but it is a factor the Listing Committee considers, in the context of the facts and circumstances of each case, to mitigate the level of sanction.
123. The following table provides some information on the Listing Committee's work in this direction.

	2007	2008	2009	2010
Number of disciplinary or settlement cases involving an “ Internal Control Review ” direction	3	4	6	1
Number of disciplinary or settlement cases involving a “ Retention of Compliance Adviser ” direction	4	5	5	5
Number of disciplinary or settlement cases involving a “ Training of Directors ” direction	7	4	7	6

124. As referred to in paragraph 111 above, some disciplinary matters are disposed of by settlement as approved by the Listing Committee. This approach has been adopted in a number of occasions in recent years and transparency in the process and the factors to be taken into account was the subject of an announcement on 22 June 2007. The rationale for the adoption of this policy, which has been the subject of commentary in earlier years, remains relevant and will not be repeated here. The full text of the announcement can be found on the Exchange website at <http://www.hkex.com.hk/eng/newsconsul/hkexnews/2007/0706222news.htm>.

125. In 2008, five disciplinary matters were concluded by settlement whereas in 2009 three cases were resolved in this way and four in 2010. They represented respectively 33%, 33% and 44% of disciplinary matters disposed of in each of those years. The past few years witnessed an increased awareness of and a readiness to explore settlement of disciplinary matters on the part of listed issuers, directors and their professional advisers. Provided the settlement terms represent an overall fair regulatory outcome to the breaches occurred and the relevant parties' conduct and achieve the Exchange's regulatory objectives, the Listing Committee welcomes the efforts made by the market users and the Listing Division in bringing about agreed disposal of disciplinary matters.

126. In summary, the Listing Committee has and will continue to use the existing limited powers available to it to sanction the conduct of issuers and directors who act in breach of the Listing Rules and also direct remedial and other actions designed to enhance the corporate governance of issuers who have acted in breach of the Listing Rules.

127. The Listing Committee would again take this opportunity to remind directors that the level of co-operation shown in helping the Exchange establish the facts during an investigation into suspected breaches is a factor taken into account in deciding what, if any, disciplinary action is appropriate. Directors are required by the terms of their undertaking to the Exchange, to cooperate with the Exchange to facilitate the performance of its regulatory function in responding promptly to enquiries and attending meetings with the Listing Division and the Committee when required. Breach of these obligations may give rise to disciplinary action distinct from the substantive breaches of the Listing Rules suspected.

128. As to the three areas where measures have been taken with a view to improving transparency as referred to in the Listing Committee's last two Annual Reports, the Committee would comment on them in turn. Firstly, the Committee would report that it has continued to take steps to expand on the information in public announcements concluding disciplinary action, including expanded reasons and more explanation for its actions.

129. Secondly, the Listing Committee has noted that there are now 7 announcements on the Exchange website made by the Listing Division requesting the assistance of directors in their enquiries.

130. Thirdly, the Listing Committee has also noted that the Listing Enforcement Department has now delivered a total of 14 guidance letters of which 8 have been published on the Exchange website. No new letters were published during 2010.

POLICY DEVELOPMENT

131. Policy matters are generally dealt with at policy meetings of the Listing Committee as this helps to ensure broad participation from the Listing Committee membership. The Listing Committee aims to hold policy meetings on a quarterly basis. Nonetheless it is sometimes necessary for issues to be considered at regular meetings of the Committee. These items are normally in the nature of reporting back on minor revisions to policy previously agreed at quarterly policy meetings or amendments to the Listing Rules which had previously been approved at quarterly policy meetings that were minor in nature but which, nonetheless, required the Listing Committee's approval. A total of 16 meetings were held during 2010.

132. The table below summarises the policy matters considered at the Listing Committee's policy and regular meetings during the year.

Date	Items
11 February 2010 Regular meeting	– Listing Committee Report 2009
25 February 2010 Regular meeting	– Briefing on measures to be adopted for a listing by way of introduction.
11 March 2010 Regular meeting	– Presentation on HKEx's Strategic Plan
26 April 2010 Policy meeting	<ul style="list-style-type: none"> – Approval of Consultation Conclusions and related Listing Rule amendments: <ul style="list-style-type: none"> – Mineral and Exploration Companies – Circulars and Listing Documents – Connected Transactions – Mixed Media Offers – Reviews of: <ul style="list-style-type: none"> – Directors' compliance with the Model Code in 2009 – Compliance with requirement to publish announcements on issuers' websites – Main Board Initial Listing Eligibility Requirements – Recommendations from the Listing Committee Corporate Governance Sub-committee – Approval of minor amendments to the Listing Rules for property valuation standards – Proposed changes to property valuation requirements – initial consideration – Proposed Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures – initial consideration
22 June 2010 Policy meeting	Review of Consultation Paper on the Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations
22 July 2010 Regular meeting	– Review of implications for the conduct of Listing Committee hearings arising from the Court of Final Appeal judgment, <i>Medical Council of Hong Kong v Helen Chan</i>
30 August 2010 Policy meeting	<ul style="list-style-type: none"> – Approval of Consultation Papers on: <ul style="list-style-type: none"> – Proposed Changes to Requirements on Minimum Number of Shareholders for the Market Capitalisation/Revenue Test – Proposed Changes to Requirements for Qualified Property Acquisitions and Formation of Joint Ventures – Proposed Changes to Requirements for Listing of Debt Issues for Professionals Only – Joint Consultation Paper on Proposed Changes to Property Valuation Requirements (Initial draft) – Reviews of: <ul style="list-style-type: none"> – Measures adopted for overseas listed companies listing by way of introduction – Connected transaction Rules – Ex-entitlement trading and shareholder approval – Placing guidelines – Recommendations from the Listing Committee Corporate Governance Sub-committee – Updates/Briefings on: <ul style="list-style-type: none"> – Post vetting regime – Regulation of Inactive Companies, Cash Shells and Reverse Takeovers – Listing of Overseas Companies – Raising investors' awareness of ETFs – Environmental, Social and Governance Reporting – policy direction – Approval of Guide on General Meetings – Approval of Report on Implementation of Code on Corporate Governance Practices

- 21 September 2010**
Regular meeting
- Review of directors’ compliance with the Model Code in Q1 2010
- 30 September 2010**
Regular meeting
- Approval of interim guidance on Pre-IPO Investments
- 14 October 2010**
Regular meeting
- Approvals of the Isle of Man and California as jurisdictions of incorporation for listing applicants
- 4 November 2010**
Regular meeting
- Report on the Securities and Futures Commission’s 2010 annual review of the Exchange’s performance in its regulation of listing matters
 - Approval of minor housekeeping amendments to the Listing Rules
- 11 November 2010**
Regular meeting
- Briefing on measures to raise investors’ awareness of synthetic ETFs.
- 25 November 2010**
Regular meeting
- Approval of Joint Consultation Paper on Proposed Changes to Property Valuation Requirements
- 13 December 2010**
Policy meeting
- Approval of Consultation Conclusions and related Listing Rule amendments:
 - Minimum Number of Shareholders for the Market Capitalisation/Revenue Test
 - Requirements for Qualified Property Acquisitions and Formation of Joint Ventures
 - Approval of Consultation Papers on:
 - Ex-entitlement trading and Shareholder Approval
 - Review of the Code on Corporate Governance Practices and Associated Listing Rules
 - Reviews of:
 - Approach to requiring overseas regulatory information to be published in Hong Kong
 - Use of structured contracts by listing applicants
 - Updates/Briefings on
 - Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations
 - Regulatory cooperation with exchanges in the Mainland and overseas
 - Initial implementation plan for Environmental, Social and Governance Reporting
 - Approval of soft consultation on Special Purpose Acquisition Companies
- 16 December 2010**
Regular meeting
- Approval of Italy as a jurisdiction of incorporation for listing applicants
- 30 December 2010**
Regular meeting
- Approval of Listing Rule amendments consequential to changes in trading hours

POLICY AGENDA FOR 2011

133. We highlight below those matters we currently plan to consider during 2011:

- Prospectus simplification
- Further review on connected transactions Rules, market consultation and conclusions
- Consultation conclusions on review of the Code on Corporate Governance Practices and Associated Listing Rules
- Consultation conclusions on proposed changes to the Property Valuation Requirements
- Consultation conclusions on proposed changes to Ex-entitlement Trading and Shareholder Approval
- Possible consequential amendments to the Listing Rules from the proposed statutory backing on continuing disclosure obligations
- Consultation conclusions on proposed changes to requirements for the listing of debt issues to professional investors only
- Pre-IPO investments and placing guidelines
- Guide to Environmental, Social and Governance Reporting for listed issuers
- Review of Joint Policy Statement
- Review of listed structured products regime consequential to SFC Consultation Conclusions to Consultation Papers on Structured Products and Selling Practices, and Reforms to Prospectus Regime
- Review of structured contracts
- Review of Chapter 14 and rewriting Chapter 14A in more accessible language
- Chapter 21 review

CONCLUSION

134. 2010 was another busy year for the Committee. I wish to thank my two deputy chairmen, fellow Committee members and the Listing Division for their continued support and hard work during the past year.

135. This report was approved for submission to the boards of the Exchange and HKEx on 24 February 2011.

A handwritten signature in black ink, appearing to read "Teresa Ko". The signature is fluid and cursive, with a large initial "T" and a distinct "K" at the end.

Teresa Ko
Chairman

MAIN BOARD AND GEM LISTING COMMITTEE MEMBERS LIST

(As at 31 December 2010)

Chairman

KO Yuk-yin, Teresa

Deputy Chairmen

LEE Ka Sze, Carmelo

MOORE John Douglas

Ex officio member

LI Xiaojia, Charles

Other members (in alphabetical order)

BROWN Melissa

BUNKER Robert Edward John

CANHAM Janine Sarah

CHAN Chun Hung, Vincent

CHEN Yang Chung, Roy

CHOW Siu Lui, Jack

DAVIS Nigel Justin

FUNG Shing Kwong

HUNT Stephen Burnau

JIANG Guorong

KEYES Terence Francois

LEUNG Heung Ying, Alvin

LEUNG Siu Tung, Anthony

LI Kai Cheong, Samson

LIU Ting An

MA Xuezheng, Mary

NG Meng Hua, Daniel

PHENIX Paul Anthony

SHIH, Edith

SOUTAR James Alexander

SUN Po Yuen, Richard

WINTER Richard David

WONG Koon Man, Adrian

WONG Tin Yau, Kelvin

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