

**Transcript of Remarks by Kwong Ki-chi, Chief Executive of
Hong Kong Exchanges and Clearing Limited (HKEx)
At the Financial Affairs Panel of the Legislative Council on 31 July 2002**

1. Thank you for allowing HKEx an opportunity here today to give a full account of the incident.
2. I send my heartfelt apologies to shareholders who have suffered as a result of the market's response to some of the proposals in our consultation paper.
3. The market has been focusing on the proposal to introduce a minimum share price of 50 cents as a continuous listing eligibility criterion.
4. I am here today to explain the main objectives of the proposal, the decision making leading to it and the role of HKEx in the process. I hope to provide information that will enable people to determine who is actually responsible.
5. First and foremost, I have to point out that the level of the share price is not necessarily connected to the quality, results or corporate governance of a company. Nevertheless, our consultation paper raised an issue: that too low a share price will see a rather significant change in terms of percentage even with a slight change in absolute terms (for instance, a decline of half a cent for a one-and-a-half cent stock will mean a slump of 33 per cent). It will mislead investors and there is a good chance stocks will be manipulated. And stocks with too low a price are not eligible for auto matching in our AMS (electronic trading) system, damaging transparency. Hence, the paper proposed a minimum share price of 50 cents with a view to encouraging share consolidation, and that an adequately long transition period be allowed for the affected companies to take remedial actions including share consolidations.

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6. With shares consolidated, companies will be able to remain eligible for listing on the Stock Exchange. Hence, companies staying below the 50 cents threshold aside, there would only be about 20 or 30 companies to be delisted if we implemented the entire package of proposed continuing listing eligibility criteria without revisions. That is why our consultation paper did not propose a separate trading platform for delisted stocks. But of course HKEx will seriously consider a separate platform if the market has any suggestions in that regard.
7. Regarding the issues on low-priced stocks and the delisting arrangements, many market participants and commentators expressed their opinions in the past one or two years. They called on HKEx to revise the Listing Rules. HKEx also made public several times that it had started studying the key issues and would consult the market.
8. Chairman Charles Lee has explained the details of the regulatory framework on listing matters. We followed the procedures completely in preparing the consultation paper.
9. The following are the main points of the discussions between HKEx and the SFC relating to setting the minimum share price:

30.7.01	HKEx submitted a preliminary draft proposal on consolidating low-priced stocks to the SFC, i.e. the price of shares at [\$0.01] or below over more than [20 days] [within three months] must be consolidated to a level that reaches \$0.10 or above. In addition, any corporate action shall not result in the theoretical value falling below \$0.10.
8.8.01	The SFC's reply to HKEx was that only \$5.00 and \$1.00 could be the reasonable criterion.
20.12.01	HKEx submitted a revised proposal to the SFC. HKEx suggested stocks at \$0.10 or below should be consolidated to reach the \$0.20 level. In addition, any corporate action shall not result in the theoretical value falling below \$0.30.
25.1.02	The SFC's reply to HKEx was that it did not agree with HKEx's \$0.10/\$0.30 proposal and reiterated that the threshold should be set at \$1.00.

30.4.02	In the discussions, HKEx and the SFC agreed to extend the consultation to the initial listing requirements and delisting procedures. HKEx submitted the first draft of the proposals relating to the initial listing and continuing listing eligibility and delisting procedures to the SFC. Among the proposals, HKEx suggested setting the minimum share price at \$0.30 as one of the continuing listing eligibility criteria. In addition, any corporate action shall not result in the theoretical value of the shares falling below \$0.30. The minimum IPO price was proposed to be \$1.00.
13.5.02	The SFC's email to HKEx indicated that the minimum IPO price and trading price should be \$5.00 and \$1.00 respectively.
15.5.02	The SFC and HKEx discussed the issues. HKEx indicated that it did not agree to set \$1.00 as the minimum-trading threshold as the change was too hasty, but agreed to further study the threshold of \$0.30 or \$0.50.
6.8.02	HKEx submitted the second draft of the consultation paper to the SFC, which compromised to set the minimum-trading threshold at \$0.50 and the minimum IPO price at \$2.00.
17.6.02	The SFC replied to HKEx by email, saying that it had no definite view on the \$5.00/ \$1.00 and \$2.00/\$0.50 proposals.
20.6.02	The SFC and HKEx discussed the issues at a meeting. Regarding the proposal to set \$0.50 as the minimum-trading threshold, the SFC did not have further comments.
10.7.02	The SFC had no further significant opinion on HKEx's fifth draft of the consultation paper, which included the \$0.50 threshold proposal. After consolidating the consultation paper, HKEx circulated the consultation paper to the Listing Committee on the same day.

10. Apart from discussing the issues with the SFC, HKEx collected different parties' opinions on low-priced stocks and the delisting arrangements expressed at public occasions. At the same time, we also did thorough research including a detailed study of the major markets' practices on the issues. However, in order to avoid exerting any unnecessary market pressure on the SFC and the Listing Committee, we generally do not discuss detailed proposals with other groups while discussing the proposals with the SFC.
11. In retrospect, our pre-consultation preparation (sounding) has room to improve.

12. HKEx submitted the consultation paper to the Listing Committee members on 10 July and the issue was discussed during the committee's regular meeting on 18 July. The Listing Committee supported all suggestions (including setting the minimum share price at 50 cents) and regarded them as the basis for consultation. No opinion was voiced during the meeting that the introduction of the consultation paper would lead to any irregular price volatility in low-priced stocks.
13. We reported to the SFC's chairman and other parties in early June about our plans to introduce the consultation paper in July. In the light of the Listing Committee's passage of the consultation paper and the earlier extensive media coverage of the proposals, we found that we needed to publish the paper at the earliest possible time. We then decided to publish the paper on 25 July. The SFC agreed with our decision and showed its support by publishing its delisting research report earlier on the same day (25 July).
14. Various major newspapers reported the main contents of the consultation paper from 17 July, including the need to consolidate shares with prices under 50 cents. Low-priced stocks did not experience any irregular price volatility during the next few days, even though the market was aware of the issue. Certainly, the price volatility was not an absolutely 100 per cent reliable barometer.
15. We issued the consultation paper after the close of the morning session on 25 July. The trading activity in the ensuing afternoon session was normal in general.
16. There was wide coverage of the consultation paper along with comments in the newspapers the next morning (26 July). Generally speaking, the news reports and comments (mainly from market participants) supported the general direction of our proposals. The proposed 50 cents minimum share price for mandatory share consolidation was discussed in detail in many long commentaries with some pointing out that perhaps a 10 cents threshold would be more appropriate in the context of the Hong Kong market. We saw no widespread concern in the comments that suggested that the proposals

in the consultation paper would lead to high price volatility in low-priced stocks.

17. Judging from the market response from 17 July to 25 July, and the aforesaid news reports and comments, it could be concluded that the high price volatility in low-priced stocks on 26 July was beyond the expectation of most people. In hindsight, we can say HKEx, the SFC, etc underestimated the possible market reaction.
18. We felt that the criticism accusing us of insisting on setting 50 cents as the minimum share price was unfair. At the press conference on 25 July and in a number of subsequent public comments, we emphasised that the paper was a sincere consultation. In fact, we prepared the text of the consultation paper for distribution to interested parties and arranged three seminars, which were to be held on 12, 13 and 14 August, to exchange views with listed companies and investment banks. We also took the initiative to mail the consultation paper to three major brokers' organisations to seek their views on the proposals.
19. Meanwhile, we have stated repeatedly that the minimum share price proposal did not mean an automatic delisting for stocks that remained below the 50 cents threshold. As a matter of fact, we proposed having companies consolidate their shares within the transitional period to restore their share prices to the required 50 cents or above so they would be eligible for continued listing. Furthermore, we welcomed market opinions on the duration of the transitional period, which could be 12, 18 or 24 months, or even longer.
20. But given the volatility of low-priced stocks witnessed on 26 July, we announced over the weekend that we had decided to take out the whole of Part C of the consultation paper, the part that contained all of the proposed continuing listing eligibility criteria, for separate consultation at the end of October.
21. We are sure to take the lessons from the incident to further improve our consultation exercises in the future, which of course includes the new consultation paper on continuing listing eligibility criteria we are going to publish.

22. I would like to reiterate one thing: it is necessary to improve the delisting arrangements in Hong Kong if we are to have a quality market and reinforce our status as an international finance hub.
23. Thank you, Mr Chairman.