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TO THE BUSINESS EDITOR
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Press Release

Chairman's Statement on HKEx's Delisting Consultation

The following statement was made earlier today by Mr Andrew Sheng, Chairman of the Securities and Futures Commission, at a Legco Financial Affairs Panel meeting on HKEx's delisting consultation:

The Hon. Chairman and Hon. Members of the LegCo Panel,

Thank you for calling me to present the views of the Commission on the above incident.

I propose to explain 2 major issues as follows:

- First, the rationale for the delisting consultation; and
- Second, the procedures with respect to market consultations.

Background to the Delisting Consultation Exercise

Many market and public commentators have written extensively about the need for an effective delisting mechanism. The SFC and the Exchange have also studied the subject. There are basically 5 reasons why an effective delisting mechanism is important.

1. The threat of delisting incentivizes management and controlling shareholder to improve corporate governance and company performance. Improvement in corporate governance and performance is the best result for all shareholders.

2. With no “exit,” some controlling shareholders have no incentive to turn companies around from making losses year after year, but instead see the listed company as a vehicle for luring innocent investors with rumours of fantastic price gains or chance of company being taken over as a listing shell.

3. At low unit prices – I emphasize that these are just unit prices – stocks tend to have higher volatility and are more easily manipulated on very thin trading. We constantly monitor the market for suspicious and illegal activities, including the activities of 26 July.

4. The low unit prices could mislead some investors into thinking that the stocks were "cheap" when, in reality, those unit prices do not reflect a company's fundamentals.

5. Some listed companies are so poor performing – again, I emphasize that this is not related to a stock's unit price – that their continuing status on our Main Board market affects Hong Kong's overall reputation as an international financial centre.

Over the last year, the SFC has had many meetings with the local brokerage community and the media. Every time their representatives urge us to address these problems. We have also discussed these concerns with our own Advisory Committee and Shareholders Group. Likewise, they counselled that these problems go to the heart of corporate governance and must be addressed.

The Exchange has been receiving similar feedback. When we brought up the issue with them at the end of last year, they confirmed that they had been working on a set of proposals on eligibility criteria for initial and continuing listing.

<u>Procedures for Market Consultation</u>

I would like to sketch out the present procedures for proposing changes to the Stock Exchange Listing Rules.

All proposals for Listing Rules changes are deliberated upon by the Exchange's Listing Committee, which makes the decision to go for public consultation.

Before putting the proposals to the Listing Committee, the staff of the Exchange would discuss with the staff of the SFC. Because the proposals are for public consultation, they would not be tabled to the HKEx or SFC Board of Directors.

The discussion between the SFC and Exchange staff would cover policy matters. The role of the SFC staff in these discussions is to serve as a "sounding board" in helping to identify policy issues. There is a specific understanding between the Exchange and the SFC that the SFC would not speak with outside parties about the proposals until the Listing Committee has deliberated and finalized them for public consultation.

In the case of the delisting proposals, the Exchange did discuss the issues, including the 50-cents threshold, with the SFC. The threshold is <u>not</u> to trigger delisting but to require share consolidation. The purpose of this is to remove the impression that the stock is "cheap" or a "bargain", and to avoid the situation where movement of a few cents in the unit price would be large percentage swings.

We also confirmed with the Exchange that, since listed companies could meet the 50 cents threshold simply by share consolidations, the proposals would put only 20 or so listed companies at risk of being delisted if the proposals were ultimately adopted.

The Exchange submitted the proposals to its Listing Committee on July 10 for deliberation on July 18. We understand that the Committee made some changes and approved the proposals for public consultation.

The purpose of public consultation is to seek the market's views on the proposals. The Exchange would receive responses, analyze the feedback, write a conclusions paper, make appropriate changes, go back to the Listing Committee, which would deliberate on any revisions and decide on the final rule changes. The Exchange would then submit those changes to the SFC for approval.

The SFC, as an independent statutory body, would not need to discuss the details with the Government. In general, we keep the Government informed of the broad principles for the various policy initiatives.

Conclusions

We understand that the proposals caused a lot of market confusion and certain key issues were not communicated fully to the public. As the statutory regulator of the HKEx, we feel deeply about and regret this incident and its effects on the public. Henceforth, the SFC would work more closely with the Exchange to ensure better and wider discussions with market practitioners and the securities industry to collect their views. We sincerely hope that such incidences will not be repeated.

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