

23 December 2003

The Scripless Project Team
Hong Kong Exchanges and Clearing Limited
7/F., Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

By email

Dear Sirs,

Consultation Paper on a Proposed Operational Model for a Scripless Securities Market

We write to give our comments on the Consultation Paper issued by HKEx in October 2003.

We support any moves towards a scripless model and greater transparency on the Register of Members. However, the proposed model does look somewhat complex, and it would be preferable if further investigations could be made into ways in which the Register of Members could be less fragmented than currently proposed under Diagram 3-1. Further, it is not clear from the Paper what the likely cost implications will be for listed issuers, custodians and general market participants - these are of major concern to the parties involved. Specifically:

1. Chapter 3 Proposed Operational Model for a Scripless Securities Market

- The different cost structures under the CCASS and the Issuer Registers may create an operational inefficiency.
- Investors who choose the 'name-on-register' account type will receive statements from both CCASS and their broker/custodians. This seems excessive. Reconciliation issues may arise due to different statement cycles of the two parties.
- The processing of Electronic Deposit Instruction, Electronic Withdrawal Instruction, dematerialisation, rematerialisation and inter-register transfers point to the need for a more complicated system design. Costs, resources and lead-time required to facilitate such system changes are likely to be of great concern to all parties involved.

2. Chapter 8 Other Issues

- The security and user-friendliness of the Shareholder Reference Number proposed in the model are yet to be addressed.
- The removal of the current immediate credit policy of Hong Kong Securities Clearing Company Ltd. will undoubtedly affect the efficiency of selling shares in scrip form.

Yours sincerely,

Rona Morgan
Secretary