



香港證券業協會 HONG KONG SECURITIES ASSOCIATION

30th Anniversary
HKSA

永遠名譽會長 PERM. HON. PRESIDENTS

主席
CHAIRMAN
李耀榮
WILLIAM LEE

董偉
DAVID TUNG

徐國期
ZEE KWOK KUNG

吳兆聲
SUNNY NG

胡經昌
HENRY WU

湛祐榮
CHAM YAU TONG

朱頌田
CHU CHUNG TIN

張天生
CHEUNG TIN SANG

李佐雄
DANNIS LEE

范佐浩
PAUL FAN

黃偉深
WILFRED WONG

陳銘潤
HENRY CHAN

艾秉權
ANTHONY ESPINA

李耀新
KENNY LEE

副主席
VICE-CHAIRMEN

馮煒能
BRIAN FUNG

陳立德
JEFFREY CHAN

繆英蕙
BENNY MAU

秘書
HON. SECRETARY

黃仲文
WONG CHUNG MUN

秘書司庫
HON. TREASURER

胡志雄
WU CHI HUNG

董事
DIRECTORS

陳志明
BENSON CHAN

陳銘潤
HENRY CHAN

陳偉川
RICKY CHAN

張德貴
STANLEY CHEUNG

張天生
CHEUNG TIN SANG

周婉儀
CHOW YUEN YEE

艾秉權
ANTHONY ESPINA

范佐浩
PAUL FAN

方振權
JIMMY FONG

高麟
KATERINE KOU

關百忠
EDWARD KWAN

劉昇昂
LAU SHING NGON

李佐雄
DANNIS LEE

李耀新
KENNY LEE

李惟宏
ROBERT LEE

伍兆祥
SAMUEL NG

羅沙
JOSE ROSA

秦志遠
TSUN CHI YUEN

黃偉深
WILFRED WONG

胡經國
ROBERT WOO

袁敏
YUEN MUN

法律顧問
HON. LEGAL ADVISORS

關蔭光
KWAN YEE KWONG

王俊光
WONG CHUN KONG

核數師
AUDITOR

呂禮恒會計師事務所
KLC KENNIC LUI & CO. LTD.

29 September 2009

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Re: Consultation Paper on Proposals to accelerate rights issues and open offers

We refer to the captioned consultation and are pleased to submit our Association's comments as set out herein.

Summary

Whilst the Association believes a shorter timetable for both rights issue and open offer is in the interests of the Hong Kong capital market in a long run, however given the existing securities market infrastructure under which majority of shareholders do not register their titles with share registrar directly but through complex chains of custodians, the Association is of the view that the proposals may result in undesirable consequences.

The Association is of the view that Hong Kong securities market infrastructure should first move to a scripless model before the implementation of the proposal to shorten the notice period for book closure for rights issue and open offer.

Shortening of the notice period for book closure

The current proposal to shorten the notice period for book closure to 5 business days is the same for both rights issue and open offer.

Unlike rights issue which normally comes with tradable renounceable rights in form of PAL, shareholders not taking up open offers bound to have the value of their shares being diluted on "ex-entitlement" basis to reflect the lost of value due to the offer price is normally set at a discount.

Taking into account the "T+2" settlement system in Hong Kong, the current proposal of shortening of notice to 5 business days effectively makes shareholders only have 2 business days to make an investment decision. Furthermore, if securing of financing arrangements for open offer forms part of the investment consideration, it is obvious that



香港證券業協會 HONG KONG SECURITIES ASSOCIATION

30th Anniversary
HKSA

永遠名譽會長 PERM. HON. PRESIDENTS

主席
CHAIRMAN
李耀榮
WILLIAM LEE

董偉
DAVID TUNG

徐國輝
ZEE KWOK KUNG

吳兆騫
SUNNY NG

胡經昌
HENRY WU

湛和榮
CHAM YAU TONG

朱頌田
CHU CHUNG TIN

張天生
CHEUNG TIN SANG

李佐雄
DANNIS LEE

范佐浩
PAUL FAN

黃偉深
WILFRED WONG

陳銘鴻
HENRY CHAN

艾秉禮
ANTHONY ESPINA

李耀新
KENNY LEE

副主席
VICE-CHAIRMEN
馮煒能
BRIAN FUNG
陳立德
JEFFREY CHAN
繆英源
BENNY MAU

義務秘書
HON. SECRETARY
黃仲文
WONG CHUNG MUN

義務司庫
HON. TREASURER
胡志雄
WU CHI HUNG

董事
DIRECTORS
陳志明
BENSON CHAN
陳銘鴻
HENRY CHAN
陳偉川
RICKY CHAN
張德興
STANLEY CHEUNG
張天生
CHEUNG TIN SANG
周婉儀
CHOW YUEN YEE
艾秉禮
ANTHONY ESPINA
范佐浩
PAUL FAN
方振權
JIMMY FONG
高韻
KATERINE KOU
關百忠
EDWARD KWAN
劉昇路
LAU SHING NGON
李佐雄
DANNIS LEE
李耀新
KENNY LEE
李惟宏
ROBERT LEE
伍兆祥
SAMUEL NG
羅沙
JOSE ROSA
蔡志遠
TSUN CHI YUEN
黃偉深
WILFRED WONG
胡經昌
ROBERT WOO
袁敬
YUEN MUN

義務法律顧問
HON. LEGAL ADVISORS
關義光
KWAN YEE KWONG
王俊光
WONG CHUN KONG

核數師
AUDITOR
呂禮恒會計師事務所
KLC KENNIE LUI & CO. LTD.

the 2 business days period is hardly adequate to go through any financing application process.

Given the existing market infrastructure under which majority of shareholders do not registered their titles with share registrar directly but through complex chains of custodians, this will make the already tight timeframe from bad to worse. This is because majority of shareholders (particularly retail investors) receive corporate news/actions through notices from their brokers/custodians by ordinary post and by the time they receive the notice via broker statement, their shares may be trading on "ex-entitlement" basis already.

We believe this is the main reason why the current Rule 13.66 requires a minimum notice period of 14 calendar days.

Even though the shortening of notice period for book closure has lesser impact on investors on rights issue than in open offer due to theoretically the nil-paid renounceable rights can be disposed of during later subscription period, we are of the view that the notice period for book closure should remain the same for both rights issue and open offer. This is because from a broker's operation stand point, save of the trading and splitting of nil-paid rights, the back office procedures are basically the same for both open offer and rights issue. A difference notice period for book closure for open offer and rights issue will increase unnecessary burden to back office system requirements.

Replacing reference time from calendar day to business day

At the first glance of the proposals, one might think replacing reference time from calendar day to business day will provide investors with greater certainty but from an operational stand point this may actually create confusion to the market without setting out a "calendar date".

Brokers in Hong Kong will normally send a notice to applicable clients regarding entitlements such as rights issues and open offers by ordinary post as soon as practicable after they receive the same information via the CCASS terminal. In the case of rights issue and open offers, the notice will usually include key dates (obviously in calendar date format such as DD/MM/YYYY) such as last day of dealing in existing shares on cum-rights basis, latest time for acceptance of, payment for rights shares/offer shares ... etc. If the time reference is based on business day rather than calendar day, such key dates will inevitably become "floating".

Whenever there is an interruption of trade day during that period of time (such as typhoon or black rainstorm warning is in force ... etc), the communication of the key dates to the market will then become awfully complicated and burdensome, as listed issuers will then be required to re-issue key dates timetable immediately to the

2



香港證券業協會 HONG KONG SECURITIES ASSOCIATION

30th Anniversary
HKSA

永遠名譽會長 PERM. HON. PRESIDENTS

主席
CHAIRMAN
李耀榮
WILLIAM LEE

董偉
DAVID TUNG

徐國剛
ZEE KWOH KUNG

吳兆騫
SUNNY NG

胡經昌
HENRY WU

湛祐榮
CHAM YAU TONG

朱頌田
CHU CHUNG TIN

張天生
CHEUNG TIN SANG

李佐雄
DANNIS LEE

范佐浩
PAUL FAN

黃偉深
WILFRED WONG

陳銘淵
HENRY CHAN

艾秉禮
ANTHONY ESPINA

李耀新
KENNY LEE

副主席
VICE-CHAIRMEN
馮煒能
BRIAN FUNG
陳立德
JEFFREY CHAN
繆英源
BENNY MAU

義務秘書
HON. SECRETARY
黃仲文
WONG CHUNG MUN

義務司庫
HON. TREASURER
胡志雄
WU CHI HUNG

董事
DIRECTORS
陳志明
BENSON CHAN
陳銘淵
HENRY CHAN
陳德川
RICKY CHAN
張德寅
STANLEY CHEUNG
張天生
CHEUNG TIN SANG

周煥儀
CHOW YUEN YEE
艾秉禮
ANTHONY ESPINA
范佐浩
PAUL FAN
方振權
JIMMY FONG
高鵬
KATERINE KOU
關百忠
EDWARD KWAN

劉昇昂
LAU SHING NGON
李佐雄
DANNIS LEE
李耀新
KENNY LEE
李惟宏
ROBERT LEE
伍兆祥
SAMUEL NG
羅沙
JOSE ROSA
蔡志遠
TSUN CHI YUEN
黃偉深
WILFRED WONG
胡經國
ROBERT WOO
袁敏
YUEN MUN

義務法律顧問
HON. LEGAL ADVISORS
關義光
KWAN YEE KWONG
王俊光
WONG CHUN KONG

核數師
AUDITOR
呂禮恒會計師事務所
KLC KENNIC LUI & CO. LTD.

market and it follows that all of the brokers are also required to re-issue their notice to applicable clients after the same shows up in the CCASS terminal. Under the existing system, the interrupted key date will simply be extended to next business day.

In addition, in the event that a client made a bad investment decision based on key dates of a "lapsed" notice from the broker because the new key dates notice got stuck in transit in the postal system, this may increase the potential disputes between broker and its clients.

Acceleration of rights issues and open offers by enhancing securities market infrastructure

As elaborated above, the requirements for a longer notice period for book closure mainly stem from the Hong Kong's securities market infrastructure still require issuing physical scrip as evidence of securities ownership. Under which majority of shareholders do not registered their titles with share registrar directly but through complex chains of custodians thus requiring a much longer notice period for book closure to ensure corporate actions can properly reach the ultimate investors.

The proposals of reduction of notice and subscription period for rights issues and open offers are merely shifting market risks from listed issuers and underwriters to investors rather than addressing risks resulting from market infrastructure inefficiencies.

The Association is of the view that Hong Kong securities market infrastructure should first move to a scripless model before the implementation of the proposal to shorten the notice period for book closure for rights issue and open offer.

Yours sincerely,

William Lee
Chairman