

中電控股

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By Fax (no.2541-3234) and By Post

30 December 2003

Hong Kong Exchanges and Clearing Limited 7th Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong

Attn: The Scripless Project Team

Dear Sirs,

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

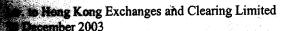
We refer to the captioned Consultation Paper and would like to address our comments as a member of the Listed Companies Focus Group.

Before going further, we should mention that the Consultation Paper invites comments on the operational aspects of a proposed scripless model. As a Listed Issuer, unlike the CCASS Participants, investors/shareholders of Listed Issuers and share registrars, etc. who are primary and active users of the system, CLP can only express its general observations on the proposed model.

It is clear that a scripless securities market corresponds to a global trend and should be adopted in Hong Kong as soon as HKEx and the relevant users are confident that a workable and efficient system has been identified. We support the following principles and objectives laid down by HKEx in devising its operational model, namely to:

- maintain the current choices provided to investors, including the choice to register their shareholdings in their own names or through market intermediaries and financial services providers;
- enhance market efficiency and thereby reduce costs;
- facilitate fair allocation of costs through the user-pays principle;
- improve protection to investors and reduce risk of misappropriation; and
- uphold current market integrity and system reliability levels.

Accordingly, we have applied these principles and objectives to evaluate the proposal, rather than the objectives as set by the SFC when it conducted a high level consultation early this year.





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A proven workable model

We have received the response of the Federation of Share Registrars in mid December regarding the Consultation Paper and noted its constructive viewpoints and suggestions, albeit that a number of these will need to be elaborated and resolved between the parties concerned. As CCASS and the share registrars are the operators who will monitor and control the scripless infrastructure in future, they must collaborate with each other in the design, testing, implementation and control processes in order to ensure an efficient and cost-effective model. In particular, the two parties will have to collaborate on a modus operandi which includes feasible proposals in areas such as the reconciliation process of the CCASS Register and the Issuer Register, the daily updating mode (i.e. single batch, multiple batches or real-time) between sub-registers and the compatibility of their computer systems.

Equitable treatment of shareholders

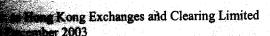
It is envisaged that the securities market cannot be completely "dematerialized", at least in the short to medium term, given that there are traditional long-term holders of securities who are used to keeping physical share scrips in their safe custody. We are, therefore, concerned that certificated and uncertificated shareholders will be treated exercising their discretion in responding to corporate equally when communications/actions or making securities transactions.

It is noted in paragraph 3.26 of the Consultation Paper that the immediate credit of deposited shares will no longer be provided to CCASS Participants due to several reasons, and largely depending on the time to be taken to complete the "dematerialisation" process by the share registrars. This is somewhat awkward and appears to represent a backward step when comparing with the current situation. Share certificates are the prima facie evidence of title in shares and holders thereof should be free to transact and deliver the same for settlement. Under the proposed model selling by certificated shareholders seems likely to be unnecessarily delayed.

Protection of shareholders' rights

The introduction of CCASS Participant Sponsored Accounts can promote the transparency of shareholdership in Listed Issuers, whilst making available to investors a higher level of protection. In the event of liquidation of the sponsoring CCASS Participant, the liquidator can distinguish the assets of the investors from those of the Shareholders will be satisfied by the receipt of direct CCASS Participant. communications from the Listed Issuers, while vesting their accounts' operational efficiency in the hands of their brokers.

However, as the securities market will become "dematerialized" gradually and thoroughly, a more sophisticated infrastructure will be required to make sure that there is sufficient back up of shareholding information and history. That is to say, both CCASS





and the share registrars may need to re-evaluate their existing systems and cater for future expansion by incurring substantial modification/upgrade costs on systems. All share registrars have to be capable of meeting the required standards and to streamline their procedures to avoid market confusion.

Register of Members

Listed Issuers are bound by law to provide their registers of members for public inspection during office hours. In compliance with this, the daily reconciliation process between the sub-registers is of considerable importance. The process itself illustrates the need for consensus between CCASS and the share registrars. The reliability of the reconciliation process may affect the shareholders' positions and malfunctioning may cause disputes. It may be appropriate to consider providing a means of recourse to aggrieved shareholders/Listed Issuers/CCASS/share registrars, such as in the form of a dispute tribunal or panel.

Costs Allocation

should handling of principle apply The user-pays There is no reason for Listed Issuers dematerialization/rematerialisation requests. themselves (in effect the main body of their shareholders) to absorb the cost of a choice made by individual shareholders.

In conclusion, we support the principle of scripless trading, subject to more details on a revised operational model being developed by the joint effort of HKEx/CCASS and the Federation of Share Registrars.

Finally, we apologise for our late submission.

Yours faithfully,

Peter W. Greenwood

Director and Company Secretary

April Chan

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Deputy Company Secretary