

## Press release

### **LCQ3: Abnormal movements of the share prices of newly-listed companies**

Wednesday, January 6, 2010

Following is a question by the Hon Tanya Chan and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 6):

Question:

Recently, the share price of a company listed by way of introduction was abnormally volatile on the first trading day, resulting in quite a number of small investors suffering losses. In this connection, will the Government inform this Council whether it knows:

(a) if the Administration, the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx) have received complaints from small investors regarding the aforesaid incident; if they have, of the number of such complaints, whether SFC and HKEx have commenced investigation regarding these complaints or taken the initiative to investigate the incident, and the latest progress of such investigations; if investigation has not been conducted, of the reasons for that;

(b) given that there have been comments that the company arranged for stock split only after it had submitted the listing application, and as the process of listing by way of introduction does not require the company to undergo the public offering procedures, it is relatively difficult for small investors to have access to the information of the company, whether SFC and HKEx will consider reviewing the existing mechanism for listing by way of introduction to tighten the restrictions on companies undertaking major actions after submission of listing applications and raise the requirements on disclosure of information; if they will, of the details; if not, the reasons for that; and

(c) given that members of the industry have criticised that the share price of the company in the Pre-opening Session on the first trading day had already been marked to an unreasonably high level, which reflected that the share prices of securities with relatively small capitalisation or low liquidity are more vulnerable to manipulation in that Session, whether SFC and HKEx will consider reviewing the arrangements for the Pre-opening Session, including the restrictions on the securities permitted for transaction during the Session; if they will, of the details; if not, the reasons for that?

Reply:

President,

My reply to the question is as follows-

(a) As of end of December 2009, the number of complaints/enquiries relating to the incident of the first trading day of Asian Citrus received by the Administration, the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx) are 32, 297 and 429 respectively. Among the complaints/enquiries received by HKEx, there may be double counting of telephone calls because identities of some callers could not be verified. HKEx also received, on December 18, 2009, submissions from representations from two groups, namely, the Hong Kong Institute of Investors and the Alliance of Investors Affected by the Asian Citrus Incident (亞洲果業苦主聯盟) regarding the incident.

The SFC has been following up the incident with the HKEx and has received reports from HKEx. The HKEx had submitted earlier a detailed paper to the Legislative Council Panel on Financial Affairs on issues relating to the listing of Asian Citrus. And the HKEx and SFC attended a special meeting of the Panel on December 21, 2009 to discuss the incident. The SFC is making enquiries and collecting further information.

(b) The HKEx announced on December 4, 2009 of its decision to require companies listed by way of introduction and also listed on an overseas market to issue an announcement to provide investors with the last closing price of their shares on any other markets on or before the first day of trading on the HKEx. It will consider on a case by case basis whether this announcement should include other information relevant to a particular case. The SFC will liaise closely with the HKEx as it develops its practices and procedures.

(c) SFC has advised us that HKEx has continued its efforts to ensure that there is both an adequate supply of shares in the Hong Kong market and a good spread of sellers in order to mitigate the risk of unusual share price volatility due to settlement gap between the Hong Kong and the overseas market where the company's shares are also traded.

In particular, the HKEx is exploring the feasibility of allowing for more efficient arbitrage between the Hong Kong market and overseas market by reducing settlement gaps. In addition, HKEx is considering whether it is feasible to require the sponsor and listed company to appoint a market maker to arbitrage between the Hong Kong and the overseas markets and the SFC is liaising with HKEx closely on this issue.

The HKEx will continue to review applications for listing by introduction and will consider them on a case by case basis. As part of the listing approval process, the new applicant and its sponsor must satisfy the HKEx that there are adequate precautionary measures in place to ensure that the shares can be traded on an orderly, informed and fair basis on and from the first day of listing on the HKEx. The SFC will liaise closely with the HKEx as it develops its practices and procedures.

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