SOUTH CHINA MORNING POST

3 APR 1987

A-B share price parity 'necessary'

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THE Stock Exchange of Hongkong will not approve the issuing of B shares unless the price differential between A and B shares can be eliminated and the marketability of B shares increased, exchange chairman Ronald Li said yesterday.

The exchange reached this decision yesterday in conjunction with the Securities Commission after discussions on proposals for B-share issues by Jardine Matheson Holdings, Cheung Kong and Hutchison.

B shares are issued at a fraction of the value of a company's existing shares but carry full voting rights.

The issue of B shares allows majority shareholders to cheaply maintain control of a company even if the company later decides to issue full-value shares to pay for future acquisitions of expansion.

The exchange's Listings Committee suggested on Wednesday that to improve the marketability of B shares and eliminate the price difference between the two shares, A and B shares could be treated equally when traded in the market.

This would mean a seller could sell any combination of A and B shares regardless of a buyer's wish to buy A shares.

The committee also suggested that in such a case the buyer should be prohibited from rejecting the transaction.

Mr Li said that because this suggestion represented a new share-trading practice, the exchange would seek legal advice in London on its validity.

If the practice was ruled illegal, the exchange would not approve the proposals by Cheung Kong, Hutchison and Jardine Matheson Holdings to issue B shares unless those companies could themselves find a way to eliminate the price differential and increase the marketability of B shares.

Mr Li said Jardine, Cheung Kong and Hutchison had agreed in principle to this.

He said the Securities Commission agreed that the price difference between A and B shares was unfair to holders of B shares although B-share dividends and equity holdings within a company were in proportion to A shares.

Historically, trading in B shares is deflated once a company's majority shareholders have consolidated their position. Holders of B shares then find them difficult to trade despite the discount to the A share's price.

A market analyst said yesterday linking A and B shares in trading could balance the price of the two shares.

However, another analyst said the link could mean it would cost the majority shareholders less to consolidate their controlling interest.

He said the majority shareholders would buy B shares which could boost the share price. But the arbitrage effect meant the market price of A shares would also rise giving majority shareholders the opportunity to reduce their holdings of A shares.