

## SECURITIES AND FUTURES COMMISSION

### **Report on Errors in Newspaper Announcements of Allotment Results of the Initial Public Offering of Shares in China Life Insurance Company Limited**

#### **1. Purpose**

- 1.1 This report is about errors in the 17 December 2003 newspaper announcements of the allotment results of the Initial Public Offering (“IPO”) of shares in China Life Insurance Company Limited (“China Life”). It describes the events leading up to the discovery of the errors and how the incident was resolved. It examines the nature and scope of the errors and how they occurred, identifies issues and explores the way forward, including making certain recommendations to improve the IPO process.
- 1.2 The report is based on chronologies and replies submitted in response to the Securities and Futures Commission (“SFC”) requests by Computershare Hong Kong Investor Services Limited (“

announcements were sent by Equity to two newspapers at about 00:30 on 17 December 2003.

**3. Discovery of errors**



not revealed any further significant errors (with any identified isolated errors to be explained); and (iii) the publication of a paid announcement in English and Chinese newspapers by 7 a.m. on 18 December 2003 containing details about the extent and the nature of the errors, and sources where investors could identify the allotment of SFC supportorEx's position as a purchase of 14.8020.4D-0.000.

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press. This process is semi-manual and semi-electronic and comprised the following procedures:

Based on the source data appearing electronically in Computershare's files, Equity's staff manually sorted and grouped the data saved in its database file into categories by the number of allotted shares.

By using desktop publishing software, Equity then formatted and typeset the "grouped" data for publication in the press.

A printed proof of the announcement was then produced and circulated to all relevant parties. After incorporating comments from all parties concerned, Equity then "transformed" the proof (containing the undetected errors) into a "post-script" file and emailed this file to the newspapers for publication.

- 6.3 According to Equity, the errors relating to the 2,000 and 3,000 EIPO shares' categories were caused by a mistake made by their staff in the manual "grouping" process. A successful EIPO applicant known by the identification code "3000" was allotted 2,000 shares. When "grouping" the data, Equity's staff mistook the number "3000" to be the "3,000 share category", and, as a result, some 9,000 EIPO applicants allotted 2,000 shares each whose identification document numbers or identification codes followed that applicant were erroneously grouped under the "3,000 share category".
- 6.4 The identification reference number that is normally used for CCASS EIPO input is a "reference number" which is arbitrarily assigned to the application. In cases where a CCASS EIPO instruction has been input, those inputting the instruction can assign a random number or sometimes the client's account number to the application for easy identification when allotment results are obtained. The length and combination of these numbers may vary greatly. When an assigned number is the same as the number of allocated shares, there is an increased risk of error, especially when the printer's work involved both electronic and manual processes.
- 6.5 This type of error is less likely to appear in relation to the printed white form of application because, in most cases, an investor's Hong Kong Identity Card number will be used as the unique identification reference number.
- 6.6 According to Equity, the other errors mentioned in China Life's corrective announcement dated 17 December 2003 were caused by a technical problem with its software.
- 6.7 As the subscription allotment announcement errors appeared in the newspaper announcements only and not the allotment results which Computershare had provided to HKEx and which HKEx had published (which had not been

reformatted by Equity), it is clear that the error occurred in the process of reformatting the raw data by Equity. That said, the SFC believes that the printing problem and the ancillary errors may have been avoided if better software had been used by Equity and a more rigorous review and reconciliation process had been in place.

## **7. Conclusion**

- 7.1 The allotment results announcement of the China Life IPO was inaccurate because of errors which occurred at th

There was no lead or coordinating sponsor among the four joint sponsors of the China Life IPO. It has been proposed in the Joint SFC/HKEx Consultation Paper on the regulation of Sponsors and Independent Financial Advisors

Securities and Futures Commission  
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Encl.



The Principal Participants in the China Life IPO

Issuer: China Life Insurance Company Limited (“China Life”)

Sponsors: China International Capital Corporation (Hong Kong) Limited (“CICC”)  
Citigroup Global Markets Asia Limited (“Citigroup”)  
Credit Suisse First Boston (Hong Kong) Limited (“CSFB”)  
Deutsche Bank AG, Hong Kong Branch (“Deutsche Bank”)

Legal Advisers to Sponsors: Baker & McKenzie

Legal Advisers to Issuer: Allen & Overy

Accountants: PricewaterhouseCoopers

Registrar: Computershare Hong K