

Corporate Communications Department, HKEx
Mr. Richard Williams

Dear Richard,

Thank you for putting new proposals on how to make the listing process more efficient, fair, and more effective. This is my first reaction to your fine proposal and may I congratulate your team on some first rate recommendations.

Please accept my apologies for not being able to address all the issues. There are simply too many issues at hand and given my limited time, I am afraid I can only address a few. Below please find my commentary on a few questions that I believe such commentary would be appropriate.

Before I begin, I would like to point out some of the key boundaries that have framed my commentary, and I used them to help me put things in perspective. If you don't mind, I shall refer to them occasionally and they are:

- A. **Competitive Positioning**, that is, whatever changes that are to be introduced has to take account of the competitive position that such changes will provide to the Exchange. The impetus to list foreign firms at the Shanghai Exchange and their intention to bring back H shares to Shanghai; with how the HKEx would counter with a new strategy would be an example.
- B. **Simplicity**, that is, keeping the rules simple without many restrictions allows for the greatest amount of flexibility without introducing more complexity should be an aim. The market is changing faster and risks are getting more complex for anyone to fathom. It is much easier for our customers to understand and apply as well.
- C. **Market**, that is, allowing the market to dictate her preference as much as possible, and not impose organizational restrictions that would eventually be replaced by market behaviors. Listening and respecting the market would be the aim here.
- D. **Quality and a bias towards statistics and fact based information**, that is, recognizing the power of statistics and how for example Six Sigma level of quality has been applied successfully in management and how such processes can also be applied at the Exchange. Designing in quality and introducing Quality Assurances are two such initiatives that have been neglected in the current discussions.
- E. **Educating the Public**, that is, fostering the concept that wise and well-informed shareholders are the best customers of the Exchange; and that a key role of the Exchange is to educate the shareholders so that they can become wise consumers of the products and services of the Exchange. Good and demanding shareholders will make the HKEx a stronger exchange and we have a role to play here.

- F. **Change Management**, that is, managing the change processes as changes should be introduced slowly and sometimes piecemeal introduction would allow the market to absorb it at its own pace. Allowing the market to take as much or as little as possible, without imposing too much bureaucratic restrictions.

Generally, I am in agreement with most of the proposed changes, particularly those that are in line with the six parameters cited above.

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Questions on information dissemination.

Encourage the dissemination of information through the web and corporate website, but request such be done in English and written Chinese (in simplified and traditional) as majority of the investors would be covered by these languages. For those who still demand printed documents, request them to pay for the postage and this deterrent should be a sufficient form against abuse. Users who refuse to pay for postage can always pick up a free copy of such information at the issuer's office. For the reluctant few, perhaps a transition period of six months, moving ultimately to the recommendation immediately above.

Q. 2.1. Do you agree that a new Rule should be introduced to grant to the Exchange express general power to gather information.

Agree in principle. The power should include the power to penalize or fine, else it would be toothless, like the many sanctions already within the power of the Exchange. Conversely, it is extremely burdensome for many organizations to compile with ad-hoc requests from the Exchange and such power of the Exchange should be limited and not be abused by those with such power.

In some companies where quality is emphasized, the level of quality is posted for all to see. Grades are used based on the gap from standard and I could imagine such grades can be posted so that issuers have every incentive to seek out the Exchange and provide the Exchange with more information such that their Grades can be higher. Similar to your comply or explain principle but with a slight twist.

Q. 3.1 Do you agree that the requirement in the Main Board Rules for a qualified accountant should be removed?

Given the nature of the beast of many Chinese firms, having this strengthens the market and would enhance the Exchange's ability to avoid subsequent and downstream problems with the Exchange. The market has come to expect this level of quality from HK listed firms and it would not be sensible to remove it at this stage.

The core of the argument falls on what is meant by a qualified accountant, and I would imagine a person holding an ACCA qualification or even a CMA qualification that has been recognized by their respective local Hong Kong chapter [or in fact whose authority has been recognized by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications] would be eligible. Furthermore, as China opens up, there will be many local accountants and many professional organizations which can be awarding such certifications, but they need to be at par with Hong Kong standards. The HK Chapters of these accounting professional institutes, as pointed out in your paper, are harmonizing their standards with one another. When that is in place, the staff at the Exchange would no longer need to worry about the standards of such professionals.

Conversely, a clear ruling from the Exchange would help Chinese-based professional organizations to quickly come to terms and seek out qualified bodies in Hong Kong and I guess this should be one of the aims of such ruling.

As a matter of transition and testing, the above suggestion can be first applied to those listing on GEM, say over a period of a few years. If there are no side effects, then consider moving the same requirement to the Main Board.

Q. 5.1 Do you agree that the existing Rule 8.08 should be amended?

More a comment here as I don't know the breakdown of market activities where the natural % that would be in line with Pareto optimality, or simply the 80/20 rule in management.

I would tend to favor a simpler %, without regard to dollar amount. 15% would appear right. I don't imagine any company would like to be listed if it doesn't have at least 15% of the shares in the public's hands and it is in the company's incentive to have more trading of its shares and that having more shares in the market would facilitate that. A simple % is easier for the public to understand.

The dollar may not be as relevant in today's market due to the wide range of fluctuation possible on any one day [and a review of those falling in this category would be needed] where a drop could put the value below the threshold of trading. This may trigger suspension but the aim is not to suspend the share from trading, but to provide a smoother transition as the market comes to terms with value of the shares.

Q. 7.1 Do you agree that the Exchange should no longer review all announcements made by listed issuers?

"All" is too comprehensive a term and I would imagine there are certain announcements that are more troublesome than others, and the 80/20 rules would certainly apply here. The Exchange should reserve the rights to

review, and it is up to the issuers to be in compliance with rules or be in alignment with the guidelines.

Q. 7.2 Do you have any views on the proposed arrangements and issues the Exchange should consider in order to effect an orderly transition from the current approach to the new approach with a further reduction in the scope of pre-vetting announcement?

Pre-vetting is a silly idea today and the market has moved on from this. It should be the issuer's responsibility to be in compliance and work towards the provision of information as requested by the Exchange. The Exchange has a role to play in educating what is needed. Nonetheless, the market in China is different and there are too many different levels; and let's not kid ourselves that the China market is not a core market that we are after. Where there is a market failure or where the local market or know-how is not as efficient, the Exchange should encourage the issuer to seek out professionals to assist them to be in compliance. Perhaps a shortlist endorsed by the Exchange would be a starting position (accredited by the Exchange of such quality perhaps?)

Approving applications when all the right information in place is an easy process and the Exchange should shift the burden and educate the market towards this level of thinking. But not all applications are easy to process because the information is not consistent or insufficient, at which stage the judgment of the staff of the Exchange is called. This can be largely reduced if the education process is clearer and advocates such as [exchange accredited?] lawyers and accountants would be aided in doing their job. The ultimate aim is not to slow down nor dis-approve any listing, but to ensure only those who are qualified to be listed get through [acting in the role of a credit card issuer whose one aim is to have more card members]. It is sound management to inform the market the duration of the listing process and suggests ways for issuers how the listing can be made easier.

The duration would fit into a normal curve and some patterns would ultimately emerge, suggesting why and how certain firms are able to obtain a listing in say 'one week' instead of 'one year'. The Exchange can post such information for potential issuers to see, hereby educating the market.

However, the power of post audit, and not post vetting, using the Quality Assurance management mindset at the Exchange should be strengthened at the same time. I would imagine the workflow and processes at the Exchange would need to change from one of ensuring compliance to one that is to assuring compliance.

Questions on disclosure of information about and by directors

My personal belief is more about what directors do than what they are by virtue of their qualifications or association. Information about the directors has already been provided by the issuer during the time of issuance and unless additional information could be deemed to be detrimental

to the health of the issuer such as convictions [subject to Offenders Ordinance for example], fraud or criminal proceedings of the directors, no additional information is necessary.

Investors and the market can obtain enhanced and more up-to-date information on directors through the newspaper and the internet; and that which is material and relevant can be provided or clarified by the issuer at the issuer's discretion. The regular annual and interim report should suffice and it is again up to the issuer to amend such information should they decide if there's the need for this.

The disclosure requirements, if any, should not only be directorships in all 'public' companies with securities listed in Hong Kong or overseas and should be for directorships of all companies, private or public, government and non-government organizations. In today's world, businesses are measured from end to end and that often involve varying sets of suppliers. Today we have social enterprises and all sorts of legal entities that are difficult to define; public in nature but not listed. Why stop at public companies if the end game is for transparency.