

From: Joseph So
Sent: Tuesday, February 19, 2008 4:43:42 PM
To: CVW
Subject: Combined Consultation Paper on Proposed Changes to the Listing Rules
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Dear Sir/Madam

I am writing to express my view on the issue of Public Float (Issue 5) in the Combined Consultation Paper on Proposed Changes to the Listing Rules ("Rule") issued by the Hong Kong Stock Exchanges and Clearing Limited ("HKEX").

(1) I agree that the Rule shall be amended to remove discretion by the HKEX over the application of the Rule.

(2) I am against the Rule 8 be so amended that public float can fall as low as 10% of the total capitalization of the issuer.

It seems that HKEX solely considers the maintenance of minimum public float as regard to the provision of fair-trading. But one should note that there is another important aspect of minimum public float : maintenance of meaningful public ownership. You may recall the time when HKEX was listed. It' s listing purpose was then to de-mutualise rather than to seek funding. Therefore, I think both fair-trading issue and public ownership issue should be considered when amending Rule 8. I will elaborate my view on public ownership first, then to re-visit the issue of fair-trading.

According to the proposed amendment to the Rule 8, the public ownership can fall as low as 10% of the market capitalization of the issuer. This will be a serious jeopardy to the rights of minority shareholders.

Consider the following scenario:-

- A company with market capitalization of HK\$40.1 billion with public float at 10%
- The company proposes a major transaction as defined under Rule 14
- The transaction involves the major shareholder

In this case, only shareholders of the 10% of outstanding shares are voting for the transaction. Under the existing rules, single shareholder of 5.1% of outstanding shares can dominate the decision. A single investor dominating the wills of hundred thousands of small investors. Can we call this "fair market"? Even with the proposed amendment to Rule 8.24 in place, a shareholder with 4.9% ownership is very likely to dominate the voting process.

Now, let's examine the subject in the perspective of maintenance of fair-trading.

It seems that there is science behind the proposal by HKEX regarding the amendment. I urge HKEX explain to the public the underlying scientific formula. That is to answer the question: "Why having HK\$6 billion free float (10% rule) of issuer with market capitalization of HK\$60 billion would maintain fair trading as good as having HK\$2.5 billion free float (25% rule) for issuer at market capitalization of HK\$10 billion. The market capitalization of former being 6 times bigger than the latter, but the free float is just 2.4 times bigger.

My view is that maintenance of fair trading means maintaining reasonable balance between demand and supply of shares. Unless there are statistics to show that demand for shares of an issuer is negatively co-related to its market capitalization, I cannot be convinced that the proposed amendment will enhance (at least to maintain) market fairness.

I do not have enough data to form a scientific opinion on the above issue. But HKEX should have the capability to establish the relationship between market capitalization and turnover.

The Rule amendment indeed, as mentioned in paragraph 5.14 of the Consultation Paper, gives the potential issuer flexibility in IPO process. I believe that having more flexibility for the issuer will encourage market development. But will that have negative effects on shareholders' right and fair-trading? More convincing argument will be needed in this regard.

My suggestion to public float is that 25% should be maintained across all issuer, unless there are strong reasons to suggest that other scheme would maintain or enhance fair trading and shareholders' right.

I hope that HKEX still consider that above view when making final decision about the amendment.

Thank you for your attention.

Yours sincerely

Joseph So
Investor