

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017092.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with the proposal to disallow highly dilutive pre-emptive offers unless there are exceptional circumstances?

Yes

No

If your answer is "No", please give reasons for your views.

2. Do you agree with the proposed 25% threshold on value dilution? If not, what is the appropriate percentage threshold and the reasons for this threshold?

Yes

No

(Please specify the appropriate percentage threshold \_\_\_\_\_)

If your answer is "No", please give reasons for your views.

3. Do you agree that the proposed requirements should also apply to share issuance under a specific mandate?

Yes

No

If your answer is "No", please give reasons for your views.

In contrast to pre-emptive offers, if share issuance is permitted under a specific mandate where shareholders are given a proper chance to vet, I see little logic in imposing a Rule restriction. I note your comment that turnout rate by shareholders are low, but if they are given a proper opportunity to protect their own investment and fail to do so, they have only themselves to blame. I think it is dangerous for regulatory authority to step in when the market itself (or investors themselves) has the power to safeguard abuses.

4. Do you agree with the proposal to aggregate rights issues, open offers and specific mandate placings within a rolling 12-month period?

Yes

No

If your answer is "No", please give reasons for your views.

Please see my comment to Q3.

5. Do you agree with the proposed method of calculating cumulative value dilution? If not, what is the appropriate method?

Yes

No  
(Please specify the appropriate method \_\_\_\_\_)

If your answer is "No", please give reasons for your views.

Please see my comment to Q3.

6. Do you agree with the proposal to extend the minority shareholder approval requirement to all open offers (unless the new securities are issued under the general mandate)?

Yes

No

If your answer is "No", please give reasons for your views.

7. Do you agree with the proposal to remove the underwriting requirement for pre-emptive offers?

Yes

No

If your answer is "No", please give reasons for your views.

8. Do you agree with our proposal to require underwriters to be licensed persons independent from the issuers and their connected persons?

Yes

No

If your answer is "No", please give reasons for your views.

It may be for good commercial reason (eg. lower cost) that a licensed person is not engaged. A blanket requirement is not appropriate.

9. In view of paragraphs 72 and 73 of the Consultation Paper:

(a) do you agree that controlling shareholders should be allowed to act as underwriters?

Yes

No

If your answer is "Yes", please give reasons for your views.

It may indicate a vote of confidence, or for saving high underwriting costs. I see no reason to have such a restriction as long as other protection is offered to minority shareholders to avoid abuse.

(b) do you think that substantial (but not controlling) shareholders should be allowed to act as underwriters?

Yes

No

If your answer is "Yes", please give reasons for your views.

Same as (a) above.

10. Do you agree that compensatory arrangements should be mandatory when pre-emptive offers are underwritten by connected persons?

Yes

No

If your answer is "No", please give reasons for your views.

11. Do you agree with the proposal to remove the connected transaction exemption for underwriting (including sub-underwriting) of pre-emptive offers by connected persons?

Yes

No

If your answer is "No", please give reasons for your views.

12. Do you agree with the proposal to make it mandatory for issuers to adopt either the excess application arrangement or the compensatory arrangement in rights issues and open offers?

Yes

No

If your answer is "No", please give reasons for your views.

I would rather see requirement for minority shareholders approval imposed on waiver to excess application or compensatory arrangements. These arrangements are costly. They are also not very effective due to lack of market liquidity for many issuers' shares. If the rights issue is priced tight to the market and minority shareholders agree to it, I see no reason to make these arrangements mandatory.

13. Do you agree with the proposal to limit the excess applications by a controlling shareholder and his/her/its associates to a maximum number equivalent to the offer shares minus their pro rata entitlements?

Yes

No

If your answer is "No", please give reasons for your views.

14. Do you agree with our proposal to disallow the use of general mandate for placing of warrants and options for cash consideration?

Yes

No

If your answer is "No", please give reasons for your views.

15. Do you agree with the proposal to disallow any price discount of the initial conversion price of convertible securities to be placed under general mandate?

Yes

No

If your answer is "No", please give reasons for your views.

16. Do you agree with the proposal to require disclosure of the use of proceeds from all equity fundraisings in interim and annual reports?

Yes

No

If your answer is "No", please give reasons for your views.

This is rather meaningless. The proceeds from an equity fundraising will become part of a general pool of funds of the issuer. There is no way one can identify whether the use of funds is from the equity fundraising or from the issuer's existing pool of funds.

17. Do you agree with the proposal to impose a minimum price requirement on subdivision or bonus issue of shares?

Yes

No

If your answer is "No", please give reasons for your views.

My suggestion is an absolute prohibition of all subdivision and bonus issue. Bonus shares are not real "bonus", as we all know. So you are not restricting issuers from paying "bonus" to shareholders. Bonus share issues and subdivision are often used to lower the per-share price, which is claimed for the purpose of lowering the board lot cost to allow more investors to participate. Actually the most effective way to do that is to change the board lot size. In these days where physical scrip is almost outdated, this is the cheapest option (shareholders are unlikely required to take their old share certificate to exchange for new ones). In fact I have always been an advocate for abolition of "board lots". Shares should be traded in any numbers without discount. This is clearly the way forward when share transactions are electronicized.

18. Do you agree with the proposed minimum adjusted price of HK\$1? If not, what is the threshold you consider appropriate: (a) HK\$0.5; or (b) other?

HK\$1

HK\$0.5

Other (Please specify the appropriate threshold \_\_\_\_\_)

If you answer is "Other", please give reasons for your views.

Please see my comment to Q17.

19. Do you support a demonstration period of six months? If not, please specify the period you consider appropriate.

Yes

No  
(Please specify the appropriate demonstration period \_\_\_\_\_)

If your answer is "No", please give reasons for your views.

***Please see my comment to Q17.***

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