

CHELSEA SECURITIES LTD

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Submission to SFC-HKEX consultation on listing Regulation By James Filmer-Wilson – AAI608

I have been associated with the Hong Kong Stock Exchange for nearly 50 years, having bought a seat on the old Hong Kong Stock Exchange in 1969. I am now on the point of retirement having recently sold out my interest in Chelsea Securities Limited.

I have read David Webb's submission to SFC dated 6th September 2016 and should like to say that I agree with all the points and suggestions he has made.

For my part I should like to raise two matters which do not directly relate to the IPO Listing procedures and regulations but do, I think, have a significant bearing on the confidence that both participants and investors have at the present time in the system.

1.) Suspended shares

I appreciate that the way in which the authorities handle suspended shares is extremely difficult, but it is not being done in a way to give investors / shareholders the feeling that their interests are being properly looked after – there is relatively little communication with investors keeping them up to date with events, there is no one involved providing investors with an account as to what has happened to their assets/interests and what is being proposed to safeguard them, and there is essentially no one involved in either the suspension exercise or later winding-up operation to whom investors can turn to for advice on what redress they could look for in providing some compensation.

In past years I have tried to take up this matter with personnel in the Stock Exchange's listing department but have got nowhere. A copy of David Graham's letter of 17th November 2015 is attached for your interest.

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2.) Role of Auditors

This “Suspended Shares” problem leads to the question as to just what is the role of Auditors in their appointment by shareholders in General Meeting.

Naturally enough investors expect auditors to check the accounts and numbers as they are reported to shareholders, but when trouble comes along – accounts are delayed, the reporting of price-sensitive information etc. – the auditors more or often than not opt out from taking any responsibility in reporting to shareholders.

Auditors are appointed by shareholders in general meeting, but they are allowed to resign without calling a meeting to give members an explanation of their reasons for resignation.

Shareholders should be given an opportunity of choosing a firm which offers, for extra fees, to provide shareholders with certain services should certain developments occur in the operation of a company. For example:-

- 1.) Shares become thinly traded and suspicions grow that a proper float of 25% of the issued equity is not held in public hands i.e. a large part of the float gradually becomes acquired by parties associated with the management to the detriment of minority shareholders and the counter's share prospects.
- 2.) Publication of half-yearly accounts are delayed with no proper explanation being given (here I should like to endorse David Webb's recommendation that Quarterly reports should become mandatory)
- 3.) Should the authorities move to suspend a share, then the auditors, along with Independent and Non-Executive directors, should be required to call a members' meeting at which shareholders should be able to request the auditors to remain in their role, monitor the suspension and report to shareholders, for additional fees.

If the SFC-HKEX are looking to expand the market in a serious way then it is essential that investor confidence is given a strong boost by measures / new initiatives which clearly give investors encouragement that oversight of company affairs is raised to much more reliable levels than is the case at present.

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We see HKEX has a conflict of interest in its determination to increase the size of the market and the need to see that existing listings are properly supervised. In this regard it is probably better to rely on preventative measures, provided through the responsibilities of auditors and independent directors, than having to obtain the services of specialists to sort out a mess that has been allowed to get out of control and to the detriment of investor confidence in HKEX's management of the market-place.

Should the supervisory systems be improved, thereby raising investor confidence in the market, then there would appear to be no need to add yet another junior market to the system.

J.A. Filmer-Wilson AAI608
cc. David M. Webb