
Date : 16 Nov 2016

To: SFC & HKEX Listing Committee (Joint Consultation)

Dear Sirs/Madam,

Ref : Your Joint Consultation on new "Listing Regulation" (closing on 18 Nov 2016) .

Please find enclosed 2 copies of my comments for your Joint Consultation on proposed changes to Listing Regulation.

Yours sincerely,

Oliver .

Dear Sir/Madam ,

Re: SFC and HKEX Joint Consultation on Listing Regulation.

I am one of the many public small investors resident in HK and I wish to contribute some comments to the Joint Consultation for reform of the existing listing rules .

1. The arrangement for investing in any listed company requires the initial sale of shares by IPO to the public investors and the funds paid by subscribers for the shares are entrusted to the Board of Directors . Subsequently , the proceeds from sale of IPO shares are held by the company as long term capital investment in the balance sheet and shares may be re- sold to other investors for profit or loss i.e shares are traded daily on the Stock Exchange.
2. If the company is trading profitably , the trading result for the year will be reported in the Annual Report and investors may be rewarded by payment of annual dividend , which also attracts interest from new buyers, thereby giving support to the share price . The problem for public investors is the dividend payment relies on a voluntary recommendation by the Board of Directors and this uncertainty puts their share investment at high risk to loss.
3. Some companies have controlling directors who take large annual fees for themselves and don't care about their obligations as "trustee for public shareholders investment" to deliver any dividends to the public shareholders . Because there are no rules on dividend payment, some controlling directors think they own the company and treat their public shareholders like passengers in a taxi being there for a short ride /punt and not respected as part owner in the company entitle to a share of the profits.
4. All companies have (1) Executive Directors , ED (2) Non-Executive Directors NED and (3) Independent Non-Executive Directors INED but many INEDs don't make any effort to ensure that a fair dividend is paid to shareholders. Often the INED 's are appointed to serve on the Directors Remuneration Committee and to award favourable remuneration fees for the Directors but they are not given any say on the dividend payment for shareholders even though they are supposed to represent the public shareholders interest.
5. There are some listed companies which have never paid any dividend for 20 years but during this period have raised funds by huge rights issues several times from the stock market . These type of companies are actually spreading debt amongst their public investors since there is no intention to pay a dividend from their trading profits (no intention to deliver a fair return on the rights shares means the rights issue is really a "never to be repaid debt " issue.). This spread of debt into the local investor community has some damaging side effects for the performances of other large investors such as MPF funds which are managed by financial investment professional managers and Exchange Fund managed by HKMA .
e.g
(a) the Exchange Fund (managed by HKMA) reported a loss of HK\$18.3 billion for year 2015.
(b) the MPF (mandatory provident funds) partly invested in stocks lost money in 2015 , averaging loss at HK \$6000 per employee .

6. Examples of stocks which rarely or never paid dividend but used frequent consolidation and rights issue to whittle down the interest of their existing shareholders and new rights shares probably pass onto underwriters and broker organised speculators :

(a) Mason Finance (previously : Willie) -Past Record of Share Consolidation for Stock No. 00273 :

Price (at 11 Nov 2016) = \$0.165 , NAV = \$0.182 and Market Capital = \$18.4 Billion

Date	Consolidate	Rights issue	Split or Bonus.	2000 Shares Reduces to
Dec 2007	1 for 10	1 for 1 at HKD\$ 0.22		200
Dec 2008	1 for 5	5 for 2 consolidated shares at \$0.15		40
Mar 2011	1 for 5			8
Dec 2011		8 for 1 at \$0.125		
Dec 2012	1 for 10	1 for 2 at \$1.05		0
Mar 2014			5 for 1	
Aug 2014			Bonus 1 for 4	
Oct 2014			10 for 1 + Bonus 1 for 2	
Oct 2016		6 for 5 at \$0.13	Bonus 1 for 10	

(b) Hengten Net (previously : Mascotte Holdings) – Past record of Consolidation for St. No. 00136 :

Price (at 11 Nov 2016) = \$0.51 , NAV = \$0.0099 and Market Capital = \$37 Billion.

Date	Consolidate	Rights Issue	Split/bonus .	2000 shares reduces to
Jun 2008		1 for 2 at \$0.15		2000
Jan 2009	1 for 10			200
Jul 2009			3 for 2	300
Mar 2012	1 for 16			18
Feb 2013		4 for 1 at \$0.07		
Jul 2015	1 for 2			9

Under the present system of rules , the public investors stake (i.e investment money) is entrusted to the Board of Directors . If the companies make a trading loss , the company accounting records will show all investors bearing a portion of the loss (and this is reflected by lower asset value in balance sheet). But when the Directors deliberately apply a no dividend policy year after year and use consolidation and issue new shares below NAV to external speculators , it results in stripping the shareholding of the company's existing public shareholders and transfers the related asset value to external speculators . It seems similar type of scam to the Bernie Madoff 's operation where new incoming investment money was used to pay off existing investors but in Hong Kong it is working in reverse where the asset value of their existing investors is transferred to new speculators. This situation arises because the Regulators in SFC and HKEX don't understand /recognise possibility of organised crime in the board room and fails to

recognise many INEDs are subverted to working for the majority investor and do not care for the public investor's interest.

7. Examples of Companies making good profit over the years but Directors refuse pay dividend or pay too little dividend and causes the share price to be damaged and to remain undervalued ; and this prevents delivering the proper profit to their public shareholders include :

No. 1838 (paid dividend only for 1 year after listing and no dividend since May 2008),

No. 129 (paying tiny dividend and inadequate to support shareprice up to NAV).

No. 488 (paying tiny dividend for last 3 years and NIL div paid for 15 years before),

HKEX Stock No.	Company Name	Share Price at 11 Nov 2016 (Selling price available to public investors)	Net Asset Value per share which is given in the Annual Report . (from aastocks.com)	NAV minus "Share Price" = Share value lost by poor dividend . (% lost value)
1838	China Properties	\$ 1.89	\$ 23.78	\$ 21.89 (92 %)
129	Asia Standard Intl	\$ 1.64	\$ 11.98	\$ 10.34 (86 %)
488	Lai Sun Dev.	\$ 0.148	\$ 1.081	\$ 0.933 (86 %)

HKEX Stock No.	Company Name	NAV minus Share Price (A)	No. of Shares held by Public Investors (B)	Estd Profit denied to Public Investors (A x B)
1838	China Properties	\$ 21.89	450 Mil	\$ 9.8 Billion
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The Directors of Stock Nos. 1838, 129 and 488 have not committed any offence under the existing rules but it shows the stock exchange listing rules for paying dividends are deficient and the present system fails to deliver the fair share of profit due to public investors including unit trusts , pension funds / MPF / Exchange Fund. These are just 3 companies identified where the public shareholders are not able to realise the profit due to them because the ED (Directors appointed by the major investor) decide not to recommend paying a dividend and the INEDs are not defending the public shareholders interest and take steps to deliver the estimated \$26.8 Billion due to public investors of these 3 listed companies.).

There are actually many more companies where the Board of Directors do not pay a dividend from the revenue profits even when the company finances are in healthy financial situation and well able to pay out a dividend and the total loss of investment return to the public investors is colossal. If the Board of Directors want to operate without paying dividend to public investors , the company should be privatised but those companies which want participation of public investors should be made to pay a meaningful annual dividend such as based on 1/3rd of the revenue profit (excluding fair value changes for capital investments) and leaving 2/3rd of revenue profit in the company for re-investment.

The reason for investing in shares of a company listed on the Hong Kong Stock Exchange is to gain a profit and because the listed company continues trading, there must be a profit reward by way of annual dividends paid to the public shareholder and such dividend payments must be publicised to prospective investors in the market or there will be no new investors willing to take the place of any investor wanting to exit his/her investment taking a capital profit or possible loss. Therefore if the company makes a profit during the trading year, the Board of Directors should be required to recommend a dividend of say one third of revenue profit because the public investors have not waived their right to receive a dividend.

If the Directors want to retain the share of year's profit belonging to public shareholders in the company, it should be proposed at the AGM and voted on by only the public shareholders.

8. Proposed for changes to the Listing Rules are :

- (a) Annual Dividend of at least one third of the annual revenue profit to be recommended and paid to shareholders. This will not be causing any hardship for the major shareholder because more dividend money will be paid to the major shareholder and most probably raising up the share price and increasing the value of major investor's stake.
- (b) Directors to be required to defend the value of the shares and will not be allowed to rights issue new shares or place shares at below NAV. It is bad business sense to issue new shares at below NAV (=giving away asset value gained from no dividend policy).
- (c) The 10 year or 5 year summary in the annual report to include the EPS info (split between revenue and change in fair value earnings) and "dividend per share". It is important to show a track record of rising revenue and rising dividend as showing such records in Annual report can attract new long term investors.
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Note : May 17, 2016 - **President Xi Jinping** urged to resolutely push forward supply-side **structural reform** ... "Xi's reiteration of supply-side **structural reform** reflects policymakers' ... Chinese economy to grow 6.7% in Q2: think tank **2016-05-10 14:53**.) The HK Stock Exchange is a HK Government approved platform for investment open to public participation and the listing rules are in urgent need of reform in the Boardroom to remove the avenues for malpractices against public investors.

So I hope the SFC and HKEX will take note of President Xi's call for supply-side structural reform applies to the Stock Exchange business and will seriously consider the proposals.

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