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THE STOCK EXCHANGE OF HONGKONG LTD : HISTORY REPEATING ITSELF

Investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) may, one day, look back on the tail end of this millennium and ask the question: *'Did that really happen?'*

The answer shall be: *'Yes! And it was welcomed and endorsed by the Authorities of the day!'*

At what period, in the history of the HKSAR, has there been a time when, what could easily be mistaken as, a *'snake-oil company'* (the term, used in the wild days of the US West, during the 18^{th} Century through to the late 19^{th} Century, when confidence tricksters travelled from one ramshackled town in the West to another, selling their cure-alls at a buck a throw) could achieve instant popularity to the extent of having the number of valid applications to buy $HK1.20 shares exceed 58.70 times the number of shares on offer?

And the company's aggregate Net Profits for the past 2 Financial Years was $HK6.47 million.

But, still, it was permitted by the Authorities to raise $HK79 million from the investing public via The Stock Exchange of Hongkong Ltd.

This company, by the way, is China Agrotech Holdings Ltd, a new entry to The Stock Exchange's ranks, having issued its Prospectus on November 18.

At what period, in the history of the HKSAR, has there been a time when a New Issue has been able to raise $HK450 million in cash, $HK100 million of which to be placed in what could only be described as a *'wish pot'*, with Management, willing to admit, openly, that it has no firm plans for the use of the money.

This company, Timeless Software Ltd, which issued its prospectus on November 19, has never earned a profit since it was founded in March 1996; and, it has Accumulated Losses of about $HK71 million.

This flotation was one of the *'darlings'* of The Stock Exchange of Hongkong Ltd, with valid applications for the New Issue exceeding 10 times the number of shares on offer.

Severe and valid criticism was leveled against the managements of the 4 stock exchanges of old (before their amalgamation into The Stock Exchange of Hongkong Ltd), but never has there been a time like today.

The War

In the early 1970s, when the Far East Exchange Ltd was having a *'war'* with The Hongkong Stock Exchange (as it was then called), quite a number of interesting companies were being listed.

There was Uniworld Shipping Ltd, Kwaichung Investments Ltd, Cedar Garments Ltd, Luen Hing Shing Investments Ltd, Faber Merlin Ltd and Tung Hing Holdings Ltd, just to name 6 such *'interesting'* companies.

They do not exist any more, for one reason or another, at least, not in the names they used in those wild days.

At the time of the listing of many of the *'interesting'* 1970 companies on the Far East Exchange, it was not unusual to find the share price rise 3-fold within one week of a company's shares, being quoted.

The logic, which was considered very reasonable and accepted by the then intelligentsia, in explaining the phenomenal rises in the price of new listing, was that there were too many people, chasing too few shares.

Or, another variation on the theme was that the potential for these new listings warranted the investing public's re-appraisal of a fair market price in spite of what the merchant bankers/promoters/underwriters may have maintained when determining the price of the shares of the new listing.

Before the amalgamation of the 4 Hongkong stock exchanges into The Stock Exchange of Hongkong Ltd, nearly all stockbrokers on the Kowloon Stock Exchange, the Kam Ngan Stock Exchange and the Far East Exchange made *'book'* on the price of the shares of a new listing, many days before the new listing went on the boards.

This pushed the price of the shares up even before the man-in-the-street had an inkling that the Offer Price would be exceeded, and long before the first share changed hands on what was then termed, *'A Recognised Stock Exchange'*.

This quasi-legal process, of stockbrokers, secretly boosting the share price of a new listing, was known as, *'The Grey Market Price'*.

(While the artificiality of the share price was unquestionable, since the Authorities of the day did nothing, then, on the principle that *'a standard, unenforced, is a standard, abandoned'*, such activities must have been considered acceptable practices.)

Those were the days, too, when just about every Committee Member of the stock exchanges received their 50,000 board lots of the new listing shares.

The reason, that the Committee Members demanded their shares, was on the grounds that they needed them in order to make a market for the founders or promoters of the new listing, thereby guaranteeing the success of the flotation by these Committee Members, being able to guarantee a market in the scrip.

It was a small price to pay, it was argued at the time.

By the time a company's shares were quoted on one of the 3 stock exchanges, the share price had jumped many times over the Offer Price – guaranteed for those who played the game, a la 1970s stock-exchanges' rules.

While everybody was making money, during those heady days, few people cared much about the reasonableness, or honesty, of what was happening: It was enough that there was money to be made.

That was the name of the game, after all.

Many unskilled labourers and semi-skilled office workers did not worry, overly, about their jobs because, within a couple of lucky weeks of playing the stock market, it was possible to pocket more than 5 years' a normal person's salary.

When the golden rings were gone and the stock-market, merry-go-round came to a screeching halt, those riders, who were not holding on tightly to their painted, wooden horses, found themselves flat on their backs – bust.

It may well come to pass that it will be recorded that history has repeated itself in The Hongkong Special Administrative Region with regard to many of the new listings on The Stock Exchange of Hongkong Ltd, today.

Because many of the new listings are just as rubbishy as those issues of the 1970s!

In fact, some of the more recent issues are a far cry from the worst flotation, during the days when (felon) Ronald Li Fook Shiu was Chairman of the Far East Exchange.

In the 1970s, at least the worst company floated had something behind it: One ship – as was the case in Uniworld Shipping – one building – as in the case of Kwaichung Investments – or a portfolio of listed blue chips – as was the case of Luen Hing Shing.

Today, many of the new issues have nothing to back them up except a vague suggestion that Management would like to do this, or that; and, if the situation arises, allowing Management to carry out its plans, regardless of the efficacy of those plans, it would like to have tens of millions of investors' dollars available to it.

And it appears that nothing can stop investors, throwing their money at these management clowns and conmen.

Especially, when these managements have 'T*he Good Housekeeping Seal of Approval'* of sponsors, underwriters, merchant bankers, et alii.

The question: How many new listings will be able to survive the next one year, 2 years, decade?

As one chairman of one publicly listed company commented to TARGET: *'You will see – one* (company) *out of 10* (companies) *may still be around in the next few years.'*

<u>The Indian Example</u>

In a crowded market in a major city of India – Bombay, Calcutta, Bangalore, etc – if a seemingly non-caring motorist is perceived to have been driving too quickly in a crowded area and, for one reason or another, knocks down a pedestrian, there is good chance that that motorist will never drive again.

Because is it quite likely that a crowd will descend upon him, or her, and knock the silly motorist to death, using whatever is available – sticks, stones, etc.

Laws, pertaining to safe-driving limits, are known, or should be known, in all parts of India, but not everybody follows the law – as is the case in most modern countries of the world, too, India, being no exception to the rule.

When an ethnic adult Indian travels abroad and applies for a driving licence in a different country, provided that he or she can pass the written test and the driving test of the area in which he or she applies for a licence, he or she will be able to obtain a valid licence to operate a motor vehicle.

What the examiner of an ethnic Indian candidate, applying for a driving licence in the HKSAR, cannot know, of course, is how the candidate will react when flustered or in a great hurry and has to negotiate through crowds of pedestrians, say in the Causeway Bay area or the Mongkok area.

In India, the ethnic Indian, in charge of a motor vehicle, knows that to break the rules, as laid down by tradition, is to flirt with a rock to the side of one's temple.

But, in the HKSAR, there is no such tradition.

For the time being, at least, the HKSAR is an English Common Law jurisdiction, which is subservient, only, to the whims of The Standing Committee of the National People's Congress of the Government of the PRC.

The Securities and Futures Commission (SFC) has a great deal of power since many of its determinations may be made on a subjective basis.

Who is a fit or unfit person to hold the position of a director of a publicly listed company, for instance, is a subjective determination, which, one would hope, would be made on viewing the facts of a situation on an objective basis.

When this was put to the spokesperson of the SFC, Ms Susanne Ho, TARGET was told that the SFC did not have a great deal of power.

She would not say whether determinations were made on a subjective basis or not.

She suggested that TARGET's questions may be submitted in writing and that she would try to obtain an answer … in a week or so.

This was TARGET's lone question: *How are determinations made in the SFC: On a subjective basis or on an objective basis?*

The SFC was formed because it was seen to be required.

The Committee of The Stock Exchange of Hongkong Ltd and the Disciplinary Committee of The (old) Hongkong Stock Exchange, and those, who were supposed to maintain a reasonable, fair and organised marketplace for the purchases and sales of listed securities, were seen to have been inadequate to the task of policing publicly listed companies; and, trading anomalies were becoming increasingly commonplace, requiring speedy and definitive action.

This is similar to the reason that the Independent Commission Against Corruption (ICAC) was formed in the 1974: The Royal Hongkong Police Force was seen to be inadequate to handle the vast numbers of corruption cases, inside and outside of the Government Civil Service and inside and outside of The Royal Hongkong Police Force.

While the ICAC may be said to be a rough bunch of bastards, they have done a reasonable job in cleaning up some of the problems of yesteryear.

Grudgingly, one has to state that the situation in the HKSAR is better, today, than it was in years gone by when many members of The Royal Hongkong Police Force were on a par with the people that they were supposed to be hunting down for committing crimes.

The problem with the ICAC and its powers, vested in Chapter 201, The Prevention of Bribery Ordinance, is that the onus of proof is reversed, with the accused, in certain cases, having to prove his innocence, rather than the State prove his guilt.

Going back to the Indian marketplace example, the driver, who inadvertently strikes a pedestrian in an Indian marketplace, may not have the opportunity to prove his innocence – since a crack on the head with a rock is far quicker than listening to an alibi.

So, it is likely to be that, with the vast number of, what could be described as, more than a little *'flaky'* new listings, coming on to The Stock Exchange of Hongkong Ltd, either crowds will gather to throw rocks at the Administration for non-action; or, it will be required that another organisation, or the strengthening of an existing organisation, will have to be considered/formed – after all the (investment) horses have bolted, whether or not the gate was seen to have been locked, prior to the exodus.

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