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THE CHAMBER OF HONG KONG LISTED COMPANIES

28<sup>th</sup> April, 2006

Corporate Communications Department  
Re: Discussion Paper on GEM  
Hong Kong Exchanges and Clearing Limited  
12<sup>th</sup> Floor, One International Financial Centre  
1 Harbour View Street, Central  
Hong Kong

Dear Sirs,

**Response to Discussion Paper on GEM**

We, The Chamber of Hong Kong Listed Companies, represent the interests of our members which are listed on the main board ('Main Board') or the growth enterprise market ('GEM Board') of the Hong Kong Stock Exchange and are submitting this response to the discussion paper ('Discussion Paper') on the growth enterprise market in that capacity. Prior to preparing this response, we have consulted our members which are listed on the GEM Board and their views and opinions have been, where relevant and appropriate, incorporated into this response.

Our response is structured into the following parts:

- (a) executive summary;
- (b) purposes and functions of the existing GEM Board;
- (c) regulatory basis and philosophy of the existing GEM Board;
- (d) current problems associated with or faced by the existing GEM Board;
- (e) repositioning of the GEM Board vis-à-vis the Main Board;
- (f) revamping the regulatory regime;
- (g) raising the listing standards and criteria;
- (h) streamlining the corporate governance regime;
- (i) revisiting the listing and compliance costs;
- (j) enhancing the sponsor scheme;
- (k) market making and liquidity providers;
- (l) alternative investment market ("AIM") in London; and
- (m) conclusion.

**Executive Summary**

This executive summary summarises our responses to the key discussion questions that are posed for public consultation under chapter 5 of the Discussion Paper.

## **Need for and Nature of a Growth Company Market**

On the need for and nature of a growth company market, we are of the view that:

### **Question 1**

There is a need for the GEM Board in Hong Kong in addition to, and complementing, the Main Board so as to equip Hong Kong with a comprehensive and diversified capital market catering for fund raising needs and requirements of companies of all sizes;

### **Question 2**

The GEM Board should provide a platform for fund raising and trading to smaller and growing companies from all parts of the globe which are prepared to list their securities on the GEM Board and which have not developed into a stage for listing on the Main Board;

### **Question 3**

In order to raise the quality of the listed issuers, prospective listed issuers should meet certain minimum listing criteria which will include, subject to further consultation, certain minimum asset sizes, minimum revenue or profit records; start-up companies with no asset and revenue will not be suitable for listing on the GEM Board;

### **Question 4**

The GEM Board should be accessible by, and open to, all investors, retail, professional and/or institutional, provided that adequate risk disclosure statement is given to all investors intending to invest in the GEM Board;

### **Question 5**

The regulatory philosophy should be practical and flexible and based on disclosure so as to reduce the listing and compliance costs thereby providing the growing companies with a low-cost access to public capital. The role of the sponsors should appropriately be expanded along the line of the nominated advisers ("nomads") in AIM in London. Consideration should be given to the feasibility of introducing a market making or liquidity provider regime.

## **GEM Board Structure**

On the structure of the GEM Board, we are of the view that:

### **Question 6**

The GEM Board should be constituted as a different board existing on its own with its unique structure and regulation, and should not be positioned as a stepping stone to the Main Board;

**Question 7**

- (a) The target issuers will be younger, smaller, growing companies from all industries but with proven lines of businesses that have been commercialized and with certain minimum asset sizes, revenue or profit records; all investors (retail, professional and/or institutional) may invest and trade on the GEM Board;
- (b) The regulatory approach will be flexible, practical and light and will rely on the sponsors to ensure that the listed issuers will comply with all listing rules and requirements;
- (c) The initial listing requirements will be raised in a manner as discussed in the later part of this response but the listing process will be simplified so that the listing costs and expenses will be reduced;
- (d) The process of ongoing regulatory supervision will be flexible and practical so as to reduce the compliance costs that are associated with the maintenance of a listing;
- (e) Under a disclosure-based regime, listed issuers are required to update the market on all latest developments and are required to comply with certain minimum corporate governance regime commensurate with their listing on the GEM Board; the corporate governance regime will be discussed later; and
- (f) The role of the sponsors will be reviewed and developed in such a way that the sponsors will be the key advisers to the listed issuers and will be the main contact points for the Hong Kong Stock Exchange on listing matters; further details in relation thereto will be discussed later; other professional advisers will be regulated by the market and no change is envisaged.

**Question 8**

Under our proposal, the existing issuers will remain listed in the same way;

**Question 9**

In general, we do not favour a delisting regime if any listed issuer is in compliance with the Listing Rules; however if an issuer is delisted from the GEM Board, we do not agree to create a separate market for trading of those companies. If there is a need for such a market, such will be the subject of a separate consultation.

**Other Issues**

As regards other issues that are raised in the Discussion Paper for consultation, we are of the view that:

**Question 10**

In order to raise the profile of the issuers that are listed on the GEM Board, we suggest, in addition to the other views that are expressed in this response, the

following:

- (a) the listing standards and criteria should be raised so that only quality issuers meeting those higher standards will be admitted to listing;
- (b) the Stock Exchange should take an active role and a proactive approach in marketing the GEM Board within and outside Hong Kong so as to attract quality issuers to come and list their securities;
- (c) the Stock Exchange should organize more investor education programmes so as to publicise the existence of, and the benefits of investing in, the GEM Board, emphasizing its unique features, vis-à-vis the Main Board; and
- (d) the Stock Exchange should help or facilitate the listed issuers in conducting road shows and investment seminars so as to introduce the listed issuers to the investing public and for better analyst coverage;

### **Question 11**

All listed issuers are required to provide the market with all information necessary for the market to assess the prices and investment potentials of the listed issuers; such information will include periodic financial statements and all price sensitive information; the listed issuers, assisted by their sponsors, will be the ones to provide such information to the market; and

### **Question 12**

Market making in the form of liquidity provision should be permitted on the GEM Board; the market makers or liquidity providers may be the sponsors of, but must not be connected or associated with, the listed issuers. The market makers or liquidity providers must operate independently and on their own and may not be paid, indemnified or incentivised by the listed issuers or the sponsors. Initially, the regime should be voluntary, and not mandatory and the number of market makers or liquidity providers should be limited to say a maximum of three per each listed issuer; we will further discuss this in detail later.

### **Purposes and Functions of the existing GEM Board**

As concluded in the earlier consultations and as made known to the public through its website, the purposes and functions of the existing GEM Board are:

- (a) to offer growth enterprises an avenue to raise capital;
- (b) to offer investors an alternative of investing in 'high growth, high risk' businesses;
- (c) to provide a fund raising venue and a strong identity to foster the development of technology industries in Hong and the region; and
- (d) to promote the development of venture capital investments.

We are in broad agreement with the above functions and purposes except that:

- (a) the GEM Board should be for issuers that are not just starts-up but have developed into a stage where their business models and their products are commercialized, and where they meet the minimum listing requirements in terms of asset sizes and trading records (benchmarked by revenues or profits); and
- (b) the GEM Board should provide a market for trading and a platform for fund raising to all smaller, growing companies from all industries and from anywhere of the world.

### **Regulatory Basis and Philosophy of the existing GEM Board**

As witnessed by our members in practice and as acknowledged by the Stock Exchange in the Discussion Paper, the regulatory approach towards the existing GEM Board has undergone constant changes during its development and as follows:

- (a) during early consultations, it was intended to be a market for professional and institutional investors only as it would be a high risk market;
- (b) at its launch and hitherto, all investors including retail investors are permitted to invest and trade;
- (c) initially, it was intended to be lightly regulated operating on a full disclosure basis;
- (d) subsequently, the Listing Rules of the GEM Board were tightened to be in line with, if not more stringent than, the Listing Rules of the Main Board;
- (e) initially, the GEM Board was intended to be regulated separately by a separate team/department within the Stock Exchange and to be supervised by a separate Listing Committee; and
- (f) subsequently, the Listing Rules of the Main Board and the GEM Board are harmonized and the two teams within the Stock Exchange, and the two Listing Committees, are united and merged.

In its own website, the GEM Board is stated to operate 'on the philosophy of "buyers beware" and "let the market decide" based on a strong disclosure regime. Its rules and requirements are designed to foster a culture of self compliance by listed issuers and sponsors in the discharge of their respective responsibilities'. In support of such regulatory philosophy, the following key features are designed and implemented:

- (a) greater, more frequent and timely disclosure;
- (b) sponsor scheme;
- (c) corporate governance regime; and

- (d) role of the Stock Exchange.

We agree in principle as to the declared regulatory philosophy as stated above and will discuss and propose later in this response as to the ways and means in which the current regulatory regime may be enhanced and improved, drawing on the experience that is gained from AIM in London.

### **Current Problems associated with or faced by the existing GEM Board**

As identified in the Discussion Paper and as confirmed by our members, the following problems are associated with, or faced by, the existing GEM Board:

- (a) the market is illiquid as evidenced by low trading volumes and turnovers; not many quality issuers are listed; lately, most listings are by way of placing and introduction with no public offer;
- (b) investors are not interested in investing or trading in the securities that are listed on the GEM Board;
- (c) good issuers are not interested to list their securities on the GEM Board;
- (d) sponsors are not prepared to sponsor certain perspective issuers even if they meet or even exceed the current listing requirements;
- (e) initial listing costs, and subsequent compliance costs, are very high;
- (f) many currently listed companies are making losses and have seldom, and some never, declared a dividend; and some have even been suspended for failure to update the market on their latest developments;
- (g) many good companies have migrated and transferred their listings to the Main Board once they meet the listing requirements of the Main Board, leaving the 'lemons' behind; on the contrary, we do not see a single migration or transfer from the Main Board to the GEM Board; and
- (h) there are no leading companies that are listed on the GEM Board that may boost the reputation of the GEM Board as a good second board, as compared with the listing of Microsoft, Intel, Yahoo, Google etc. on the NASDAQ in the US.

### **Repositioning of the GEM Board**

Based on the problems that have been identified with the exiting GEM Board, we suggest and propose to reposition the new GEM Board as a different board and also a new market with the following key features and characteristics:

- (a) it will maintain its basic structure as a market that is regulated by the Stock Exchange and the Securities and Futures Commission ('SFC') similar to but not exactly the same as the Main Board in term of regulatory philosophies;

- (b) it will exist on its own and provides fund raising and trading platform for smaller, growing companies from all parts of the globe; it should not be marketed or perceived as a stepping stone to the Main Board. Listed issuers may be transferred from the GEM Board to the Main Board and vice versa depending on their own needs and requirements;
- (c) it will be regulated lightly and flexibly whilst maintaining the disclosure-based regime and the philosophy of “buyers beware” and “let the market decide”; this will serve to reduce the initial listing and subsequent compliance costs;
- (d) listing fees and other fees that are charged to the GEM Board issuers by the Stock Exchange and SFC should be reduced substantially or waived so as to attract more good issuers to list their securities;
- (e) the initial listing requirements should be reviewed, revamped, and raised so that only good issuers will meet the new listing requirements; at the same time, the initial listing requirements of the Main Board should also be raised so that for those perspective issuers which do not meet the new requirements of the Main Board, they will be listed on the GEM Board as an alternative;
- (f) the current sponsor regime will be revamped and strengthened to make it in line with the AIM in London; and
- (g) a market making or liquidity provider regime may be introduced so as to provide a liquidity to the market, details of which will be covered in the later part of our response.

### **Revamping the Regulatory Regime**

We support the regulatory philosophy of:

- (a) “buyers beware”; and
- (b) “let the market decide”,

premised and based on ‘a strong disclosure regime’.

We also support a regulatory regime which is:

- (a) light;
- (b) practical and flexible;
- (c) less onerous; and
- (d) less costly to the issuers in term of initial listing and on-going compliance.

In that respect, we should review the Listing Rules of the GEM Board to see if certain listing and on-going compliance may be simplified, relaxed and streamlined whilst

maintaining the overall integrity of the market. The following may be discussed and consulted with the market:

- (a) relaxing the initial listing process and on-going compliance requirements;
- (b) replacing certain approval requirements with notice and disclosure;
- (c) simplifying and expediting the fund raising process for IPOs and subsequent funding raising exercises; and
- (d) streamlining the existing corporate governance regime.

In relaxing the regulatory regime, we should enhance and revamp our sponsor regime so that the sponsors will take on some additional roles as advisers to the listed issuers and as a conduit to the Stock Exchange.

### **Raising the Listing Standards and Criteria**

We believe that the new GEM Board should aim at providing a fund raising and trading platform for smaller, growing companies or small to medium-sized enterprises ('SMEs') but not start up companies with no proven record of trading, revenue and/or profit. Prior to listing, a SME should have achieved at least a stage of development where it has:

- (a) a proven business model and strategy;
- (b) a commercialization of its products and services;
- (c) a track record of trading, revenue and/or profit;
- (d) a certain asset size; and
- (e) a certain name or recognition in its own market or industry,

but it has not yet met the listing requirements of the Main Board.

In order to encourage more issuers to be listed on the GEM Board, the listing requirements of the Main Board should consequentially be raised so that for those perspective issuers which do not meet the listing requirements of the Main Board, they will instead be listed on the GEM Board.

As regards start-up companies, we are of the view that they should be funded by venture capital funds, incubators, banks or institutional angel investors. If these venture capital funds, incubators or angels have developed into a stage that meets the listing requirements of the GEM Board, they may either list themselves or spin off their investments for listing.

### **Streamlining the Corporate Governance Regime**

Currently, the corporate governance regime of the GEM Board is similar to, if not exactly the same as, the Main Board in terms of:

- (a) the appointment of independent non-executive directors;
- (b) the establishment of the audit committee, the remuneration committee and the nomination committee; and
- (c) the appointment of a qualified accountant.

On top of that, each GEM Board issuer is required to appoint a compliance adviser for the first two years after its initial listing.

Whilst we do believe that a good corporate governance regime is beneficial to the listed issuers, their investors and the market as whole, we are of the view that the costs in connection therewith may outweigh the benefits that are accrued to the listed issuers, their investors and the market. We have not done any detailed cost and benefit analysis on our existing corporate governance regime but are of the view that our corporate governance regime, insofar as it relates to GEM Board, will not be compromised if we are to streamline it along the following lines:

- (a) there is a mandatory requirement for one, instead of three, independent non-executive director(s);
- (b) board committees are recommended but not mandatory;
- (c) qualified accountants are recommended but not mandatory; and
- (d) the professional qualifications of company secretaries are relaxed; but
- (e) each listed issuer is mandatory required to appoint a sponsor/compliance adviser when its securities are newly listed on the GEM Board.

### **Revisiting the Listing and Compliance Costs**

Many costs are involved:

- (a) for an issuer to list its securities, and to maintain such a listing, on the GEM Board; and
- (b) for an investor to trade and invest in the securities that are listed on the GEM Board.

From a listed issuer's perspective, the following costs are incurred for a listing:

- (a) initial listing fees;
- (b) underwriting fees;
- (c) other professional fees;
- (d) other expenses that are associated with the above, including, for example, printing charges and the costs for road shows.

After a listing, the following costs will be incurred:

- (a) annual listing fees; and
- (b) other professional fees and charges for complying with the Listing Rules.

From an investor's perspective, the following trading fees and charges are incurred:

- (a) broker's fees payable to the brokers;
- (b) stamp duties payable to the Government; and
- (c) transactional levies and other charges payable to the Stock Exchange and its Clearing House.

We have conducted an informal review on the various fees and charges that are incurred by the listed issuers in listing their securities, and by the investors in trading the securities that are listed, on the GEM Board and note that there are no significant cost differences between the Main Board and the GEM Board. For example, in term of initial and annual listing fees, we have compared the initial and annual listing fees that are or maybe payable by Arnhold Holdings Limited (stock code: 102) (which is listed on the Main Board) and Sau San Tong Holdings Limited (stock code: 8200) (which is listed on the GEM Board), both of which are of similar sizes, and as follows:

	<u>Arnhold Holdings Ltd.</u> (#102)	<u>Sau San Tong Holdings Ltd.</u> (#8200)
Market capitalisation:	\$ 130,207,680.00	\$ 121,526,500.00
Main Board - Initial listing fee:	\$ 175,000.00	\$ 175,000.00
Annual listing fee:	\$ 145,000.00	\$ 145,000.00
GEM Board - Initial listing fee:	\$ 150,000.00	\$ 150,000.00
Annual listing fee:	\$ 100,000.00	\$ 150,000.00

We note that the initial and annual listing fees are not different significantly and if so, there is no cost incentive for an issuer to be listed on the GEM Board if it meets the listing requirements of the Main Board.

We have also compared the listing fees that are payable by big companies that are listed on the Main Board, for example, HSBC (stock code: 5), and note that there is no

cost incentive for them to migrate their listings from the Main Board to the GEM Board. By the same token, we have also compared the listing fees that are payable by big companies that are listed on the GEM Board, for example, Tom Online Inc (stock code: 8282) and note that there is no cost disincentive for them to migrate from the GEM Board to the Main Board. We believe this is one of the reasons why all good companies from the GEM Board have migrated and transferred to the Main Board but not vice versa.

In term of trading costs that are paid by the investors, they are the same irrespective whether the securities are listed on the Main Board or the GEM Board. If so, other things being equal, an investor is more likely to invest and trade securities that are listed on the Main Board, instead of the GEM Board.

Based on the above findings, we recommend that the Stock Exchange should review the cost structure of the listing and trading of securities on the Main Board and the GEM Board so as to provide a cost incentive to the listed issuers for listing their securities, and to the investors for trading securities that are listed, on the GEM Board.

As an inducement for more listing and for more trading on the GEM Board, the Stock Exchange may consider reducing or even waiving the listing fees for listing on, and the transactional levies for trading securities that are listed on, the GEM Board.

If the regulatory regime is simplified and is more practical and flexible, we believe that the continuing compliance costs will be reduced which will be an added incentive for issuers seeking a listing on the GEM Board.

### **Enhancing the Sponsor Scheme**

The current sponsor scheme or regime is governed under chapters 6 and 6A of the Listing Rules of the GEM Board. Chapter 6 deals with the eligibility of sponsors. Chapter 6A covers sponsors and compliance advisers as both terms are defined therein. Sponsors and compliance advisers are required to be licensed under the Securities and Futures Ordinance. In brief, sponsors will advise perspective issuers on all initial listing matters and compliance advisers will advise the listed issuers on all compliance matters after the same are listed. From a practical point of view, the roles of sponsors and compliance advisers are similar being advisers to the listed issuers and conduit to the Stock Exchange.

Under Rule 6A.02, a prospective issuer must appoint a sponsor to assist it with its initial application for listing. The role of a sponsor is defined in Rule 6A.11 to include:

- (a) close involvement in the preparation of the listing documents;
- (b) conducting reasonable due diligence;
- (c) complying with the Listing Rules that are required or expected of it;
- (d) dealing with all enquires from the Stock Exchange;

- (e) meeting with the Stock Exchange; and
- (f) complying with its personal undertaking to the Stock Exchange.

In a way, the role of a sponsor in a listing on the GEM Board is no difference from its role in a listing on the Main Board. This also explains in part the reason why a sponsor is not keen to sponsor a GEM Board IPO.

Under Rule 6A.19, a listed issuer is required to appoint a compliance adviser for effectively a period of at least 2 years after its initial listing. Under Rule 6A.21, a compliance adviser is also required to give an undertaking to the Stock Exchange in the prescribed form. During the engagement period, the listed issuer is required under Rule 6A.23 to consult with, and seek advice from, its compliance adviser on various compliance matters and issues as stated therein. If the compliance adviser is consulted as aforesaid, it is required under Rule 6A.24 to assist the listed issuer in the manner as therein set out, similar to a sponsor under a new listing.

In summary, a listed issuer is required to appoint a sponsor and a compliance adviser to assist it in the discharge of its duties under the Listing Rule during the listing process and for a period of 2 years after listing. Thereafter, the listed issuer is advised, but is not mandatory, to maintain such appointment. In practice, the Stock Exchange will treat, in particular during the listing process, the sponsor and compliance adviser as the main professional contact of the listed issuer in relation to listing matters.

We find that the sponsor scheme or regime has a long and chequered history in our corporate finance market and has discharged its function properly; we therefore recommend that the sponsor scheme or regime be maintained, expanded and extended in such a way that a listed issuer is required to appoint a sponsor or compliance adviser for so long as its securities are listed on the GEM Board. We also recommend that the Stock Exchange should review the role and function of the sponsor/compliance adviser, by benchmarking the same with a nominated adviser under the AIM regime in London.

At the time of writing this response, the SFC is consulting the market on the regulation of sponsors and compliance advisers and has just released its consultation conclusions on 10<sup>th</sup> April, 2006. We are in support of the measures that will be implemented on 1<sup>st</sup> January, 2007 and agree that the new requirements will improve and strengthen the regulation of sponsors and compliance advisers. In this respect, we recommend that the SFC and the Stock Exchange should extend their consultation to include the functions of the sponsors and compliance advisers in the context of our proposal. We are however aware that the sponsors are not keen to sponsor new issuers, nor to act as compliance officers after listing, under the current regime as the risks and obligations outweigh the rewards and fees by a significant margin. We will therefore need to consult the sponsor industry to see the ways in which their functions are redefined so that they feel comfortable to be the sponsors and compliance advisers to issuers that intend to be, or are already, listed on the GEM Board. We also take the view that if a sponsor is mandatory required for so long as an issuer is listed on the GEM Board,

- (a) sponsors are more prepared to be compliance advisers as their services are required for so long as their listed clients remain listed on the GEM Board;
- (b) this new sponsor scheme will provide incentives to sponsors to train up and educate their listed clients on listing and compliance matters, due to their long term relationship, which will be beneficial to both the sponsors and their listed clients and will lead to a gradual reduction of the relevant fees in the long term; and
- (c) this new sponsor scheme will create a new market for sponsors which in the past are not interested in providing short term compliance advisory services to listed issuers under the current Listing Rules and the market forces will help raising their service standards and lower their costs to the listed issuers which are conducive to raising the regulatory standards of our capital market.

Once the sponsor scheme or regime is extended, the Stock Exchange should review to see if the Listing Rules of the GEM Board could be simplified and relaxed so as to make them more flexible and practical.

In order to maintain a high regulatory standard under the revised regime, the SFC and the Stock Exchange should strengthen their enforcement functions so as to ensure that all listed issuers are in full compliance with the Listing Rules at all times when their securities are listed on the GEM Board and that the sponsors will discharge their functions and duties as expected or required of them under the Listing Rules for so long as they are appointed and remain as the compliance advisers of the listed issuers.

### **Market Making and Liquidity Provider**

Back in 1996, the Stock Exchange has consulted the market on the feasibility or otherwise of introducing, amongst other proposals, a regime for market making, so as to improve the market for second-line shares that are listed on the Main Board. The responses were not positive. The market was then overtaken by the 1997 boom that did not see the need to revisit this issue for the Main Board. Since then, no further consultation has been done.

As discussed earlier, the main problem that is associated with the existing GEM Board is the lack of liquidity. In the absence of a liquid market, investors cannot sell their shares when they want to divest their investment for personal or other reasons. If investors cannot sell and are forced to hold onto their shares, they will not invest in the first place. This creates a vicious cycle and a dead spiral that no investor is interested in investing in shares that are listed on the GEM Board; In the absence of active investors, listed issuers are not able to raise additional funds from the market and hence perspective issuers are not interested in listing their securities on the GEM Board. In the absence of active investors, sponsors and underwriters are not interested in sponsoring and underwriting new issues due to high underwriting risks. This explains in part the current doldrums of the GEM Board.

In order to provide a liquidity to the GEM Board, it is proposed to consider introducing a market making regime whereby liquidity providers are permitted to stand in and provide a liquidity to the market when there is no buyer or seller. We will

still maintain our order-driven automatching trading mechanism but will supplement it by a regime that all orders will be guaranteed by the market makers in the absence of any counterparty. The market makers or liquidity providers may or may not be the sponsors but must be independent of, and are not connected or associated with, the listed issuers. The market makers or liquidity providers will operate on their own and will be enumerated on the bid-ask spreads that are associated with the unmatched orders. The market makers or liquidity providers will not be paid, indemnified, and/or incentivised, by the listed issuers or the sponsors. Also, the number of market makers or liquidity providers should initially be limited to say three per each listed issuer subject to period review by the Stock Exchange in consultation with the market. The regime should initially be introduced on a voluntary basis so that listed issuers may, but are not mandatory required to, appoint such market makers or liquidity providers. The Stock Exchange will provide guidelines for the qualifications and requirements of market makers or liquidity providers and the business practices and procedures for market making including the guard against insider dealing and other market mis-conducts.

We note that the Stock Exchange has recently consulted the market on, amongst other issues, the liquidity provider regime relating to covered warrants and in consequence thereof, has improved and enhanced the current regime. In that respect, we may draw on the experience that is gained from the covered warrant market and apply the same to the securities that are listed on the GEM Board.

We recommend that the Stock Exchange should consult the market on the feasibility of introducing a market making regime.

### **Alternative Investment Market ("AIM") in London**

AIM is viewed by the London Stock Exchange to be 'the most successful growth market to the world'. AIM also 'benefits from being an integral part of the portfolio of markets offered by the London Stock Exchange – which for centuries has been one of the world's leading equity exchanges and a provider of services that facilitate the raising of capital and the trading of shares'. Since its inception in 1995, more than 2,200 companies have been listed and more than GBP 24 billion in aggregate have been raised.

In a nutshell, AIM is:

- (a) a market for younger, smaller and growing companies from all parts of the globe;
- (b) regulated by a flexible and practical regulatory regime; and
- (c) relying on the nominated advisers ("nomads") in discharging certain regulatory function of the London Stock Exchange.

A nomad is mandatory required for so long as the shares are listed on the AIM. A nomad will determine the suitability for listing, manage the flotation process, advise on all regulatory matters, advise on corporate governance matters, and provide market making and research for the listed issuers.

In a way, a nomad is similar to our sponsor regime but is more extensive. We recommend that the Stock Exchange should conduct a detailed review on the AIM regime to see if we could learn from their success.

### **Conclusion**

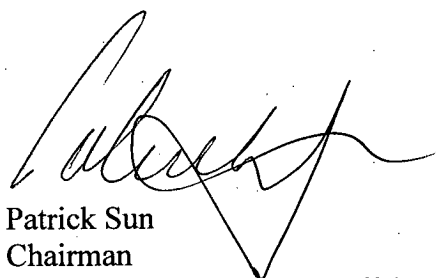
In conclusion, we welcome the Discussion Paper which has aroused in-depth discussion in the market and thank the Stock Exchange for initiating and spearheading this discussion and consultation. Our Chamber is in full support of the current GEM Board and its regulatory philosophy which have served the functions and purposes for which it is established. Our Chamber is of the view that current GEM Board may be revamped along the following lines:

- (a) it is a market for smaller, growing companies from all parts of the globe;
- (b) it exists on its own and is not positioned as a stepping stone to the Main Board;
- (c) its initial listing standards and requirements should be raised;
- (d) its regulatory regime should be streamlined so as to make them more flexible and practical;
- (e) listing and compliance costs should be reduced;
- (f) the role of sponsors/compliance advisers should be extended and expanded; and
- (g) a market making regime should be introduced.

We hope our response will contribute positively to the debate and discussion that have already been generated and are prepared to discuss in detail with the Stock Exchange as to any proposal that we have put forward in this response.

Last but not the least, we wish the Stock Exchange all the very best and every success in this consultation exercise and look forward to seeing a strong vibrant and robust GEM Board gearing to the market needs and rightly regulated in the not distant future.

Yours faithfully,  
For and on behalf of  
The Chamber of Hong Kong Listed Companies

A handwritten signature in black ink, appearing to read 'Patrick Sun', is written over a large, stylized, and somewhat abstract graphic element that resembles a large, thin-lined 'X' or a signature flourish.

Patrick Sun  
Chairman  
Financial and Regulatory Affairs Committee