



16 February 2006

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

Re: Discussion Paper on the Growth Enterprise Market (GEM)

In response to your key discussion questions in Chapter 5, our comments are shown as below:-

Q1. Is there a need for a growth company market in Hong Kong?

Ans: Yes, a growth company market in Hong Kong takes the role as a secondary market for those medium sized companies to have a fund-raising platform or a positioning as stepping stone to the Main Board.

Q2. If so, should the market primarily serve local Hong Kong companies, or should it target Mainland-based companies or regional / international companies?

Ans: The market should not only be confined to local Hong Kong companies but also serve the international companies in order to maintain Hong Kong as the premier international financial centre in the region.

Q3. At what stage of development should companies be admitted to the growth market – at start-up stage, or at a more mature stage?

Ans: It is preferable for companies to be admitted to the growth market at a more mature stage. Owing to the fact that some growth market companies' financial results have badly performed in subsequent years after the public listing in GEM Board. To make the matter worse, their share price quoted in the Stock of Exchange are usually much lower than the share price at the time of initial public offering and the shares of these companies are often illiquid. Under such circumstances, most potential investors have lost their interests and confidence in investment in the growth market. As a result, it is very hard for GEM-listed companies to have post-listing fund-raising activities in GEM.



Q4. What should be the core investor group for the growth company market – retail, professional and/or institutional? Should the growth company market be restricted to professional and institutional investors only?

Ans.: It is suggested that the core investor group for the growth company market should not be restricted to - professional and/or institutional. Take for instance, without the retail investors, it is hard for the growth companies to maintain a minimum of 25% public float of shares in compliance with the Listing Rules.

Q5. Depending on your answers to the foregoing questions, what kind of regulatory regime would be appropriate for the growth company market? In particular, should growth companies have low-cost access to public capital, or should they, because of their higher risk, be required to comply with procedures that undoubtedly dictate relatively higher costs than those for Main Board companies?

Ans.: It is better to have an equal standard with Main Board. GEM companies in general are smaller in market capitalization and can't afford too much expenses in regulatory issue and issuers may lose their interest in getting listed if the running costs of a listed company are too high.

Q6. Bearing in mind your responses to questions 1 to 5 above, please comment on the suitability of the following possible structural options for a growth company market in Hong Kong (see Chapter 4 for details on these options):

(a) GEM as a Second Board

Ans: We have opted for GEM as a Second Board. The present system has been operating for six years. During the period, 12 GEM issuers have transferred to the Main Board. GEM has successfully provided a listing channel for Mainland and Hong Kong companies.

GEM will be positioned as a stepping stone to the Main Board. Accordingly, the process of transferring to the Main Board will be streamlined as far as possible for qualified candidates.

(b) GEM and the Main Board to merge into a Single Board:

Ans: Alternatively, we can consider GEM and the Main Board to merge into a Single Board under a universal single board structure if GEM is not considered as a Second Board by the Exchange.



- (c) New alternative market – GEM to merge into the Main Board, and a new market with an enhanced regulatory regime to be launched for growth companies.

Ans: It is not advisable to have a new alternative market on the grounds that only small group of professional investors may participate and stricter sponsor regulation will be imposed. It will be too costly for the issuer to comply with such severe regulatory requirement.

Q7. Based on your preferred structural option for GEM, do you have any specific views or recommendations concerning:

- (a) the targeted issuers (eg type of business, stage of development) and investors (eg retail, professional, institutional).

Ans: To all types of targeted issuers and investors e.g. retail, professional and institutional etc. so as to activate the stock turnover of the new GEM board companies.

- (b) The regulatory approach,

Ans: It should be acceptable, reasonable and practical to comply with by most issuers.

- (c) The initial listing requirements and the listing process,

Ans: It should be more flexible in listing procedure but with stricter and higher requirement for companies going for an IPO. The Exchange should shorten the time for listing process so that it encourages more potential companies considering their listing in the growth market. Occasionally, there are many companies chose to be listed in Singapore rather than in Hong Kong due to the long process for initial listing requirements by the Hong Kong Stock Exchange.

- (d) The process of ongoing regulatory supervision;

Ans: It is so far so good for the process of ongoing regulatory supervision.

- (e) The disclosure and corporate governance requirements, and

Ans: The disclosure requirements for GEM companies should be in line with the existing corporate governance requirements as in the Main Board.



(f) The roles of sponsors and other professionals?

Ans: Of course, they should always exercise reasonable skill and responsibility towards their clients (growth companies)

Q8. If you consider that there is no need for a growth company board in Hong Kong, what should be done with GEM and its existing issuers?

Ans: Not applicable.

Q9. What, if anything, should be done with delisted companies? Should there be a separate market for trading these companies?

Ans: No.

Q10. Do you have any suggestions on how to raise the profile of companies listed on the growth company board?

Ans: To increase the stock turnover and transparency of GEM companies and more promotion from HKEx.

Q11. Should more information be provided on growth companies? If so, what information, and who should provide it?

Ans: The information be provided on growth companies should be in line with the regulatory requirements as in the Main Board.

Q12. Should market making be permitted on the growth company board? If so, what should be the obligations of and incentives provided to market makers?

Ans: It is submitted to have a market making to be permitted on the growth company board if GEM remains unchanged. The obligations should be similar to the existing warrant issuers in the Main Board.

Yours faithfully,
For and on behalf of
Far East Technology International Limited

Michael Lui
Company Secretary