



**香港證券學會**

Hong Kong Securities Professionals Association

25 April 2006

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

**Re: Discussion Paper on GEM**

We are writing in response to your discussion paper on the growth enterprise market issued in January 2006 as follows:

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

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

*We consider that there is a need for a growth company market in Hong Kong so as to allow the smaller sized companies to have an opportunity to raise funds in the capital market.*

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

*The growth company market should be opened to all companies. Actually, it is hard to distinguish a company's locality as it is quite normal for a group to comprise companies established in the PRC, Hong Kong, BVI, Macau and other overseas countries.*

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

*Since it is hard to define the stage of development of different businesses, there should be no prerequisite prescribed stage of companies admitted to the growth market. The decision making should be left to the markets.*

**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?**

*There is no need to restrict the investor group for the growth market. There is only a very fine line in distinguishing retail investors and professional investors.*

**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 dictate relatively higher costs than those for Main Board companies?**

*The required regulatory regime should be very similar to that of the main board.*



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### Possible Structural Options

**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**

*GEM can be the second board, which is distinct from and is not subordinated to the main board. However, GEM could be considered as a stepping-stone to move to the main board if all basic requirements of main board are fulfilled.*

**(b) GEM and the Main Board to merge into a single board:**

- i. Universal single board – GEM and the Main Board to merge into a single board, with no distinction between them;
- ii. Tiered single board – GEM and the Main Board to merge into a single board with the growth market forming the lower tier and the existing Main Board the upper tier. Further tiers might be introduced as well.

*Not desirable.*

**(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.**

*Not desirable.*

**(d) Others – do you have any other suggested structural options for GEM?**

*Not applicable.*

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

- (a) the targeted issuers (e.g. type of business, stage of development) and investors (e.g. retail, professional, institutional),
- (b) the regulatory approach,
- (c) the initial listing requirements and the listing process,
- (d) the process of ongoing regulatory supervision,
- (e) the disclosure and corporate governance requirements, and
- (f) the roles of sponsors and other professionals?

*This is rather the task for the Exchange to consider. The Exchange should spend more efforts to promote the GEM. For the past few years, the Exchange has spent a lot of effort to attract sizable PRC enterprises to apply for listing in the main board. However, the Exchange has spent little effort or resources to promote or enhance the status or international recognition of GEM.*

**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?

*Not applicable.*





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

*Not necessary. Let the delisted companies be delisted. Normally, shareholders of the delisted companies have already written off their investment cost totally when a company is delisted.*

#### Other Issues

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

*The Exchange must have firm and clearer policy on GEM board.*

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

*According to existing GEM Listing Rules, the disclosure requirements are more than sufficient. The Exchange, in order to avoid the mass media criticizing them not to carry out regulatory work properly, requires issuers to include almost everything into prospectus, thus turning prospectus to an encyclopedia of a listing applicant. This has the side effect of scaring many retail and professional investors away from reading the prospectus at all simply because of the sheer volume of information to be digested. The Exchange should conduct a survey on how many investors have read the prospectus before they decide to acquire new shares in IPO. Based on our experience, prospectuses in Hong Kong, when compared with those of US and UK, are the most voluminous even if we disregard the Chinese version.*

**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?**

*Yes, marketing making should be permitted.*

For and on behalf of

Hong Kong Securities Professionals Association

Alvin H.Y. Leung  
Director