香港上市公司商會
THE CHAMBER OF HONG KONG LISTED COMPANIES

October 26, 2007

Corporate Communications Department
Re: Consultation Paper on the Growth Enterprise Market
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

Response to Consultation Paper on GEM

The Chamber of Hong Kong Listed Companies is writing in response to the Consultation on the Growth Enterprise Market ("GEM Board") issued by Hong Kong Exchanges and Clearing Limited ("HKEx") in July 2007.

Before we put forward our feedback to the latest round of consultation, we would like to summarize our views in our last submission made in April 2006 as background for our comments for this current round.

In our last submission, we expressed our views that there was a need for a GEM Board in Hong Kong to provide a platform for fund raising and trading to smaller and growing companies. The regulatory philosophy should be practical and flexible and based on disclosure so as to reduce the listing and compliance costs for those companies. We raised that the role of the sponsors should be expanded along the line of the nominated advisers ("nomads") in AIM in London, and a market making system be considered to ensure liquidity. We also favoured a GEM Board that is constituted as a different board existing on its own and should not be positioned as a stepping stone to the main board so as to uphold its image as a market designated to fast growth companies. We believe these recommendations would be effective in addressing the predicament of the GEM Board today where there has been a lack of interest seeking a listing and shortage of liquidity and turnover after listing.

The current proposal put forward by HKEx in its latest consultation, in our view, would not be conducive in addressing this predicament. The key premise of the current consultation is to treat the GEM Board as a secondary board, in essence a stepping stone to the Main Board. Such intent might have the effects of further dampening the interest of seeking a listing on it and inhibiting trading.

When the GEM Board was first conceived, it was intended for companies either in their initial stage of development or whose business manifests high growth characteristics. This has the advantages of giving GEM Board companies a distinct positioning which would help attract investors who seek faster returns than what they can expect in more established companies. This would fuel liquidity, in turn attract more listings, and give forth a lively market.

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Treating the GEM Board as a secondary board and stepping stone to the Main Board would strip away such unique positioning but relegate companies listed there as "secondary", as the name denotes. The proposed simplified transfer mechanism to the Main Board also ensures what remains listed on GEM would be perceived as "secondary", since qualified companies would have migrated to the Main Board.

Our concerns are that investors would be less prone to invest in stocks that are clearly classified as "secondary", without those stocks at the same time denoting fast-growth characteristics. Likewise companies would not be keen to be seen as "secondary" by having a listing on GEM. At a time when private equity funds flourish in the market, quality start-up companies with high potential can raise private funding with relative ease. Henceforth, quality companies may wish to wait for a few more years and directly seek a Main Board listing, rather than going through a transitional arrangement.

The possible scenario would be one where investors' interest in trading GEM stocks would be subdued; companies' incentives to list will be lacklustre. The combined effects would be a perpetuation of the existing situation of low liquidity and turnover and few listings.

Our view remains that for GEM to become viable, it must be able to attract quality companies to list not only at their initial growth stage but to remain listed on a continual basis. This can be achieved by making it an "alternative" market than the Main Board where the regulatory philosophy is more flexible and easier to comply compared to the Main Board with lower listing and compliance costs. Companies can choose between Main Board and GEM Board as the most suitable platform for them. At the same time, proper education exercise needs to be carried out to educate investors about the unique nature of GEM companies as growth companies, not necessarily start-ups as in the early days of GEM, but companies that have reached certain business scale already and whose business growth is on a fast track.

While we disagree to positioning GEM as a "secondary" market, we agree some of the recommendations in your current consultation; in particular those pertained to raising the admission requirement to GEM. Our response to individual questions is in the following:

Q1. We agree to raising the admission criteria to GEM as per points (a) – (k) as these ensures a higher quality of companies listed, which would help reducing investment risks and increasing investment interest.

Q2. Yes, we agree GEM listing applications should be approved by the Listing Division under a simplified listing process. We emphasize that while the admission criteria should be made higher, the approval listing should be made more expedient.

Q3. We do not have further suggestions on streamlining the new admission process for GEM.

Q4. On the question of continuing obligations, based on our belief that GEM Board and Main Board should operate as two distinct markets, the continuing obligations should be different in a way that obligations for GEM companies should be less stringent. We hasten to add that we support higher admission criteria for GEM to ensure quality and restore confidence, but we believe, once listed, companies should be regulated lightly and flexibly. In particular in the corporate governance arena, we believe that the requirements of GEM Board could be streamlined along the following lines:

- there is a mandatory requirement for one, instead of three, independent non-executive directors;
- board committees are recommended but not mandatory;
- qualified accountants are recommended but not mandatory; and
- the professional qualifications of company secretaries are relaxed.

With the appointment of the Compliance Officer and Compliance Adviser for two years as currently required, investors can be assured of prompt disclosure, compliance and high transparency.

Q5. We do not see the need of making the continuing obligations for GEM the same as the Main Board for the reasons stated above.

Q6. Based on our belief that GEM Board and Main Board should operate as two distinct markets, we feel that the existing arrangements of a delisting and a listing arrangements are more appropriate. A simplified transfer process is based on the assumption that GEM would be treated as a stepping stone to the Main Board, something which we have reservation about.

Q7. Based on our belief that GEM Board and Main Board should operate as two distinct markets, we do not see the need of merging the two rule books. We feel that the rules for GEM Board should be more relaxed and the regulatory regime be more flexible and light-touched, as we pointed out in Q4.

Q8. We believe that the issues faced by GEM Board today is its lack of turnover and liquidity, which in turn subdues interest to list. In our previous consultation, we have made recommendations for solving these issues. We still stand by those recommendations and therefore a copy of our earlier submission is appended herewith for your reference and consideration.

In conclusion, we feel that there is a need for a GEM Board that is modeled differently from than the Main Board in terms of regulatory philosophy and listed companies profile to provide choices for both companies and investors and attain diversification of our markets.

We hope our views will contribute positively to the discussion of how the GEM Board should go forward in a viable and robust manner, bringing tangible benefits to investor, companies and the market as a whole.

We wish the Stock Exchange every success in this consultation exercise.

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

Patrick Sun
Chairman
Financial and Regulatory Affairs Committee

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