



hmv 數碼中國集團

Digital China Group

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HONG KONG EXCHANGES AND CLEARING LIMITED
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(by Fax to: +852-2524 0149)

Dear Sir / Madam,

Re: Consultation Paper on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules (the “Consultation Paper”)

In response to your Consultation Paper, we set out below our response:

(1) **Streamline Existing Listing Requirements to support Hong Kong as the leading International Financial Center**

Existing listing regime was formed base on the characteristics of Hong Kong capital market environment since the mid-90s. However, over the past 20 years, the scale and complexity of Hong Kong capital market have been changed a lot. We need to make references on other global financial markets in order to adopt suitable changes on the respective listing requirements. We take the same views of HKEX that maintaining high standard of corporate governance, attracting good quality listing candidates and keep the listing rules abreast to the rapid changing new economy are equally important to consolidate the position of Hong Kong as a major funding raising market in the world.

(2) **Institutional Investors are restricted from investing on GEM companies**

Taking our movie industry as an example, the Chinese box office has been growing for more than 30% per annum over the past few years and our business performance is in line with the market growth. We need low cost and long-term funding in order to capture the fast-changing movie market business.

Over the years, we approached professional investors to explore our funding needs and business opportunities. However, these professional investors end up to response us that they do see huge upside on our business growth but they are RESTRICTED FROM INVESTING IN GEM companies. Most of the compliance departments of professional fund management companies are restricting their fund managers on investing in GEM companies due to (1) low trading liquidity and (2) good business performance did not reflect on share price. These professional investors suggest us to Transfer to the Mainboard in order to fulfill their investment mandates.

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Many good GEM companies, like us, are in need of Transfer to the Mainboard in order to fulfill professional investors' requirements. Further tightening Transfer requirements will NOT improve the GEM but will IMMEDIATELY suppress the growth of fast growing companies like us.

(3) **Support on setting up a new Board or streamline Mainboard Listing Rules and attracting more new-economy listing candidates**

Setting up a new Board is a good start for HKEX future development. Many new-economy companies, like Alibaba, Amazon and Facebook, were growing exponentially and their capital market needs could not be found on traditional textbooks.

Nasdaq / NYSE are Hong Kong's major competitors because their listing requirements and regulatory regime are more flexible and proactively adopt to market changes. One of their competitive advantages is "different voting rights" shareholding structure. There are 116 Chinese companies primarily listed on US and only 33 Chinese companies (around 28%) adopt "different voting rights" structure. However, the total market capitalization of these 33 Chinese companies is USD561 billion which is equivalent to around 15% of the total market capitalization of Hong Kong. 18 of these Chinese companies are engaging in innovative businesses which are not available in the existing listed companies in Hong Kong. We trust that setting up a new Board could encourage more listing candidates on innovative industry.

In the future, we need to spend more efforts on promoting the new Board and enhance investor protection.

However, it takes time (more than 20 years for GEM) to promote a new Board. Fine-tuning existing listing requirements of Mainboard should be a more effective way to attract new and innovative listing candidates.

We sincerely invite you to consider our views stated on the above.

Best regards,



Chairman

Stephen Shiu Jr.