

## **Press Release**

### **LCQ20: Regulation of companies listed on Growth Enterprise Market**

Wednesday, November 11, 2015

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 11):

Question:

It has been reported that in recent days, there have been unusual movements in the share prices of quite a number of companies listed on the Growth Enterprise Market (GEM) in the early stage of their initial listings, arousing suspicion of manipulations. There are views that the current GEM listing rules permitting the placement of shares by an issuer has resulted in a high concentration of shares in the hands of a few persons and hence manipulation of share prices is prone to occur. In this connection, will the Government inform this Council:

(1) given that Rule 17.11 of the GEM Listing Rules stipulates that where the Stock Exchange of Hong Kong makes enquiries concerning the unusual movements in the prices or trading volume of an issuer's listed securities, the possible development of a false market in the issuer's securities or any other matters, the issuer must respond promptly, and that if the issuer is not aware of any matter that is relevant to the unusual movements in the prices or trading volume of its listed securities or is not aware of any information that needs to be announced for avoidance of a false market, the issuer must promptly make an announcement containing a statement to that effect, whether the Government knows the number of times that the issuers of securities listed on GEM made such announcements under that rule in the past five years, and the number of listed companies involved;

(2) given that the Securities and Futures Commission (SFC) makes announcements from time to time in respect of the concentration of shareholding of listed companies in the hands of a very small number of shareholders, whether the Government knows the number of times that SFC made announcements in respect of the high concentration of the shareholding of GEM listed companies in each of the past five years, and the number of

listed companies involved; and

(3) whether it has plans to conduct a comprehensive review of the GEM listing regime, including the criteria for making listing applications as well as vetting and approval of such applications, and the arrangement allowing the placement of securities by issuers; if it has such plans, of the details; if not, the reasons for that?

Reply:

President,

Our response to the three parts of the question is as follows:

(1) The number of unusual price and trading volume movements announcements made under Rule 17.11 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (GEM Listing Rules) as well as the number of companies listed on the Growth Enterprise Market (GEM) that issued such announcements in each of the past five years, are set out at Table 1 of Annex.

(2) The number of announcements made by the Securities and Futures Commission (SFC) in respect of high concentration of the shareholding of GEM companies and the number of GEM companies involved in each of the past five years, are set out at Table 2 of Annex.

(3) To ensure that the Listing Rules address developments in the market and represent acceptable standards which help ensure investor confidence, the SEHK reviews the Listing Rules (including those under the GEM regime) from time to time. The Listing Committee (LC) and the SFC are also supplied with periodic reports on the GEM by the Listing Department (LD) covering, amongst other things, salient vetting and listing statistics; general observations on GEM applications; and media commentary. The major reviews on the GEM regime undertaken by the SEHK are set out below:

(a) The SEHK launched the GEM in November 1999 as a Venture Board for smaller and emerging technology companies' stocks. In January 2006, the SEHK published a discussion paper setting out, for discussion and comment by

the market, options for further development of the GEM. As a result of this consultation exercise, the SEHK considered that the proper way forward was to reposition the GEM as a second board, under which the GEM would largely retain its existing structure and be positioned as a stepping stone towards the Main Board.

(b) In order to implement the plans to develop the GEM as a second board, the SEHK published in July 2007 a consultation paper on the GEM setting out a number of proposed changes to the GEM Listing Rules. The proposed changes mainly aimed to codify the existing practice on the GEM and to streamline procedures. Specifically, issuers would be allowed more flexibility in the choice of the offering mechanism (including 100% placing) but they have to comply with new admission requirements including minimum public float of at least 25% of total issued share capital (Note) and an expected market capitalisation in public hands of HK\$30 million at the time of listing, as well as minimum shareholder spread of 100 public shareholders and not more than 50% owned by the three largest public shareholders. Consultation conclusions were published in May 2008 and the revamped GEM Listing Rules came into effect on July 1, 2008.

(c) The SEHK conducted a review of the procedural matters of the listing process, including the delegated approval process, for GEM applications in 2014 and published the details in the Listing Committee Report 2014 available on the website of the Hong Kong Exchanges and Clearing Limited. In summary, in May 2014, the LC considered it unnecessary to change the current delegation of the GEM listing approval to the LD. However, the LC requested the LD to provide, in its future periodic reports on the GEM, the types of issues the LD faced during the vetting of GEM applications. The LC also considered that the new sponsor regime should be allowed to operate for a period of time before considering the delegated approval process further. In November 2014, the LC considered a periodic report on the GEM and re-considered the delegation of the GEM listing approval - it expressed support for reviewing the delegation in due course. The LC also requested that GEM cases involving more complex issues should be brought to the LC for guidance. The SEHK will continue to monitor the operation and development of the GEM.

It should be noted that approval of the SFC is required for any Listing Rule amendments proposed by the SEHK.

Note: Subject to adjustment to between 15% and 25% in the case of listing applicants with a market capital of more than HK\$10 billion.

Ends