

**Press Release**  
**LCQ11: Growth Enterprise Market**  
Wednesday, November 18, 2015

Following is a question by the Hon Christopher Cheung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 18):

Question:

It has been reported that in recent months, the share prices of quite a number of companies newly listed on the Growth Enterprise Market (GEM) were abnormally volatile in the early stage of their listings, especially those of the companies listed by way of placement of securities by issuers. The Securities and Futures Commission (SFC) has expressed concern about the situation and advised that SFC would follow it up under the existing review mechanism. In this connection, will the Government inform this Council whether it knows:

- (1) in each of the past five years, the number of companies listed on GEM (i) by way of placement of securities, and among such companies, (ii) the number of those whose share prices rose by 100 per cent or more in comparison with their issue prices within the first two weeks after listing (set out in Annex 1);
- (2) the number of companies listed on GEM whose major shareholders reduced their shareholdings, in each of the past five years, within the first six months after the listing of their companies, as well as the average percentage of their reduced shareholdings;
- (3) how SFC currently follows up the situation in which the share prices of the companies listed on GEM are abnormally volatile, and whether SFC found irregularities (such as manipulation of stock prices) in the past three years;
- (4) whether the Stock Exchange of Hong Kong Limited (SEHK) is currently reviewing the arrangements concerning the listing of companies on GEM by way of placement of securities; if so, of the direction of the review, and whether SEHK has drawn up a timetable for implementing the various recommendations to be put forward in the review report; and

(5) whether SEHK has plans to conduct a comprehensive reform of GEM's existing modus operandi, so that emerging enterprises with genuine interests in business development can raise funds by way of listing on GEM; if SEHK does, of the details?

Reply:

President,

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

(1) The number of companies listed on the Growth Enterprise Market (GEM) by way of placement of securities, and the number of those whose share prices rose by 100 per cent or more in comparison with their issue prices within the first two weeks after listing in each of the past five years are set out at Annex 2.

(2) Under GEM Listing Rule 13.16A(1)(a), controlling shareholder(s) are not allowed to dispose of shares in the newly listed companies during the first six months of listing. According to the SEHK's record, there was no disposal of shares in the first six months of listing by controlling shareholders in any GEM issuers from 2011 to October 2015.

(3) The Securities and Futures Commission (SFC) regularly monitors, through its surveillance programme, untoward price and volume movements of securities listed on the SEHK including equities listed on the GEM. The SFC makes enquiries under section 181 of the Securities and Futures Ordinance (Cap. 571) into share dealings, shareholdings and also background enquiries and then assess each case on the information received and other available information to decide whether the case merits further investigation.

Over the last three years, the SFC has enquired into / investigated a total of 98 cases of untoward movement / potential market manipulation in stocks listed on the GEM of which 41 cases are still ongoing.

(4) and (5) 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 per cent placing) but they have to comply with new admission requirements including minimum public float of at least 25 per cent 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 per cent 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 per cent and 25 per cent in the case of listing applicants with a market capital of more than HK\$10 billion.

Ends