

The Betty Letters

My Dear Grandchild,

In 1927, there was a little man in London, England, who invented a hand-held device that could, with the flick of a thumb, ignite a petrol-soaked wick, by use of a spoked wheel which, when rubbed against a piece of flint, causing a small spark. It was a unique concept in those days: It was called a cigarette lighter. The name of this little (big) man was Mr Alfred Dunhill. He went on to create more and more consumer goods until, today, the marque, Dunhill, is synonymous with luxury and superb taste. From his father's saddlery business, Mr Alfred Dunhill branched out into other fields of endeavour, year after year after year. And the company continues to go from strength to strength to this day. Then, just after World War II came to a close in 1945, Mr Masaru Ibuka started a radio-repair shop in a bombed-out part of a building in Tokyo, Japan. He was quickly joined by his friend, Mr Okio Morita, and together they founded Tokyo Tsushin Kogyo K.K. This company built Japan's first tape recorder. In early 1950, history records, Mr Masaru Ibuka went to the US and convinced the inventor of the transistor to license the technology for use in products, being developed by Tokyo Tsushin Kogyo K.K. That little Japanese company produced the first transistor radio. Today, this company is known as Sony Corporation and it is the largest consumer electronics manufacturer in the world. The above 2 little stories, factually accurate, are but little incidents in the history of world whereby the ingenuity of man created huge corporate entities, giving rise to employment for tens and thousands of workers, around the globe.

*The reason that am I telling you these stories, My Dear Grandchild, is because of what may come to pass in the near future in respect of changes to the rules and regulations of The Stock Exchange of Hongkong Ltd. The creation of The **G**rowth **E**nterprise **M**arket (The GEM) of The Stock Exchange of Hongkong was founded in order to allow just such people as Messrs Alfred Dunhill, Masaru Ibuka and Okio Morita to raise funds from the investing public, bringing to fruition their concepts for tomorrow's world. I wonder how many Hongkong investors would have wanted to back, financially, any of the 3, above-mentioned, late entrepreneurs. I, certainly, would have jumped at the opportunity. The fact that, today, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd is a flop, and has been such since it was founded in 1999, is due to the fact that there had been no way to vet, properly, those prospective GEM companies, desirous of tapping the investing public for money. Many, if not most, of those companies that came to The GEM had little to no chance of being financial successes from the start. Unscrupulous, would-be Hongkong businessmen, or people with ill-conceived notions for a start-up company, took advantage of the lax situation on The GEM and raised money only to cash in their chips and take the cash to their bankers, laughing as they went. If The Stock Exchange of Hongkong Ltd had evaluated, accurately and carefully, the prospective companies, seeking a listing on The GEM at the outset of its founding, many of the problems of today could have been avoided, no doubt. As I look at the situation, all that a clever Hongkong businessman had to do in the past was to have his company's application comply with The GEM's Listing Rules and, by so doing, there was no available reason or legal mechanism by which that prospective GEM-company's application for a listing could be denied. This is akin to certain undeveloped countries' licensed drivers of motor vehicles, coming to Hongkong and demanding the right of privilege to drive motor vehicles, here, based on the fact that they are bona fide holders of unexpired drivers' licences, issued by the governments of their home countries. The motor-vehicle, licensing authorities of Hongkong are helpless, in most cases, because foreign applicants for the privilege to drive motor vehicles on the roads of Hongkong have complied with the law and, as such, drivers' licences have to be issued in accordance with the prevailing laws. Sadly, many of those foreign drivers would fail a driver's test in Hongkong. Today, Hongkong Exchanges and Clearing Ltd is seeking to rectify the poor reputation of The GEM by moving the proverbial*

goal posts, so to speak, allowing only corporate entities with a market capitalisation of \$HK100 million or more and with a cash flow of not less than \$HK20 million per annum to be permitted to qualify for a listing on this speculative equity market. This, to my way of thinking, is contrary to the original idea of the creation of The GEM. As for a cash flow of \$HK20 million or more per annum, this is not difficult to achieve for an enterprising businessman because all that he would have to do is to go into the interior of China and to create sales even though he is absolutely certain that there will be no profit from those sales. The new concept, now being considered, My Dear Grandchild, is flawed ... and stupid in the extreme. The only lasting way to clean up the situation is to create a special GEM committee, one that is objective and impartial and above reproach, similar to those committees which have been created in certain parts of Europe, such as in Brussels, Belgium. In Brussels, the aims and objects of the heritage committees are to guarantee that certain guidelines are followed in respect of the façades of buildings in the oldest parts of the city in order to safeguard the country's heritage. The GEM committee, established to vet prospective candidates, which want to list on The GEM, would have to require senior managements of all candidate GEM companies to demonstrate, in writing, as well as make personal presentation, their concepts for their companies. This committee should comprise not just professionals – solicitors, doctors, architects, etc – but, also, laymen, such as manufacturers with no or little academic qualifications, journalists, qualified chefs of leading hotels/restaurants and even supervisors in factories. People to be excluded from this committee would be people who are seen to have, or may in the future be seen to have, vested interests, such as directors of existing publicly listed companies, stockbrokers and their families, bankers, etc. To the so-called elite of Hongkong, perhaps this idea would not sit well, but wise people in many parts of Europe have come to learn of the value of this idea. In fact, even to open a small restaurant in Austria and Belgium, today, for instance, an aspiring restaurateur would have to justify to an impartial and objective committee his or her ability and past experience and to demonstrate that the sufficient funding for the applicant's restaurant is in place. I do not understand the reason that the powers-that-be at Hongkong Exchanges and Clearing Ltd are interested in restoring the reputation of The GEM – because it never has had a reputation to restore! The rules, governing the founding of The GEM, and the rules, governing the granting to prospective GEM companies of the right to be listed, were ill-conceived from Day One because, inter alia, they lacked accountability and the express duty of fidelity by the governing powers at The Stock Exchange of Hongkong Ltd. It is high time to clean up this mess, not by creating obstacles in the way of prospective candidates, seeking a listing on The GEM, but by ensuring that those prospective GEM candidates have a sound footing, a sound business proposal, and capable and honest management before permitting the companies to tap the purse of the investing public.

This is similar to a single lady, making a determination about a man, proposing marriage to her, isn't it? Come to think of it: For what reason or reasons did I marry Bo-Bo?

Talk to you, next week.

Chief Lady

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