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FROM SECOND BOARD TO ANGELS

An analysis of Government support for new ventures

1984 - 1994

Anja Diemont-Ebes

Master of Business (Innovation & Enterprise)

1996
ACKNOWLEDGMENT

This study was commenced early in 1991. Shortly after, severe illness caused considerable delays in its completion.

Throughout this difficult period I received much needed moral support from my supervisor, Dr. Bruce Johnson, Prof. Hatem H. Salem and Ms. Reinhild Robertson - without them I would not have succeeded.

As a computer illiterate, I am indebted to Ms. Giti Namin and Ms. Shannon Super, whose skills and ceaseless attention to detail facilitated the preparation of this document.

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I also want to thank the public companies which responded to the survey and Ms. Lois Harmon, secretary with the School of Enterprise Innovation, for her support with the survey.

Anja Diemont-Ebes.
STATEMENT OF ORIGINALITY

This thesis does not incorporate any material which has been accepted for the award of any degree or diploma in any university or other educational institution and, to the best of my knowledge and belief, it does not contain any material previously published or written by another person except where due reference is made in the text of this thesis.

Signed:

[Signature]

Anja Diemont-Ebes

Date: 6 June 1996
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LIST OF ABBREVIATIONS

ABI-Inform  Global Periodical Index (database)
ABN  Australian Bibliographic Network (database)
ABIX  Australian Business Index (database)
AFR  Australian Financial Review
AMEX  American Stock Exchange
APAIS  Australian Periodicals Advice and Information Service
ASBC  Australian Second Board Consultants
ASC  Australian Securities Commission
ASX  Australian Stock Exchange
BRW  Business Review Weekly
CPA's  Certified Practising Accountants
HRSCIST  House of Representatives Standing Committee on Industry, Science and Technology
LSX  London Stock Exchange
MIC's  Management and Investment Companies
NASDAQ  National Association of Security Dealers Automated Quotation System
NCSC  National Companies and Securities Commission
NIES  National Industry Extension Service
NYSE  New York Stock Exchange
OTC  Over The Counter (market)
PDF  Pooled Development Fund
PI  Personal Investment
SBDC  Small Business Development Corporation
SEATS  Stock Exchange Automated Trading System
SEC  Securities and Exchange Commission (US)
SME’s  Small and Medium Enterprises
SMH  Sydney Morning Herald
TAFE  Technical And Further Education
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<td>USM</td>
<td>Unlisted Securities Market</td>
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CHAPTER 1

ABSTRACT

1.1 BACKGROUND

During the past decade (1984-1994), Australia experienced its worst recession since the depression of the 30’s, followed by a no-growth period and an unemployment rate hovering around nine per cent.

The awareness of Commonwealth and State Governments of the need for specific policies to stimulate new ventures and support small and medium enterprises (SME’s), was increased by a range of reviews which resulted in a variety of initiatives.

However, two key national initiatives, licensed Management and Investment Companies (MIC’s) and the Second Board Stock Market, which aimed at making access to funds easier for new ventures, failed to provide sustained financial support to new innovative firms.

Small businesses in Australia account for some 80 per cent of all businesses and 50 per cent of employment in the private sector. While many factors contribute to the successful establishment and growth of new businesses, a key factor is the availability of and access to affordable finance.

1.2 PURPOSE

The major objective of this study was to identify key success/failure factors in new venture creation and to review in detail the rise and fall of the Second Board Stock Market (1984-1992) - arguably one of the most significant Government initiatives during the 80's to provide access to equity funds.

A survey of Melbourne companies listed on the Second Board was to provide valuable information on the success/failure of the Second Board Stock Market and to illuminate desirable Government initiatives meeting SME’s survival needs.
1.3 INVESTIGATION
The research project commenced with the identification of key success/failure factors of new ventures during the early phases of commercialisation (Chapters 2 and 3) and areas for potential Government initiatives as follows:

Technical Skills
- and the need for relevant education and training.

Management Skills
- and the need for education and training.

Networking (access to distributors and markets)
- and the need for business information and business assistance schemes.

Financial Resources
- and the need for access to capital funds.

Government Financial Support Schemes
- Government involvement and funding of Research and Development (R+D)
- incentives through the taxation system
- reduction in fees, charges and "Red Tape".

Other Government Assistance Schemes
- further research into needs of new businesses.

Because new ventures primarily require funds without loss of control over their operations, the study concentrated on the public venture capital market and in particular the Second Board Stock Market (Chapter 4).
Companies, which originally listed on the Melbourne Second Board and are still successful as public companies on the Australian Stock Exchange, were asked to participate in a survey (Chapter 5) to determine:

(i) the nature of the business at the time of listing.
(ii) reasons for listing on the Second Board Stock Market.
(iii) business needs during the early stages of establishment.
(iv) effects of the closure of the Second Board Stock Market on 1/1/92.
(v) desirable Government initiatives for new businesses.

In addition, venture capital markets in the USA (in particular the Over-The-Counter market, the National Association of Security Dealers Automated Quotation System, NASDAQ) and UK (the Unlisted Securities Market, USM) were investigated and particular attention was given to their (private) informal venture capital market as a potential facility for adoption in Australia. (Chapters 6 and 7)

1.4 CONCLUSION

Supported by operational data pertaining to the Second Board, results of the survey and a comparison, in particular, with the Unlisted Securities Market in the UK, the study concluded that the Second Board Stock Market did fulfil a critical need for access to capital funds by new ventures and small/medium enterprises (SME’s) and that it was closed prematurely.

Accordingly, it has been recommended to investigate a new market for SME’s (called AIM) which was launched by the London Stock Exchange in 1994, in consideration of a new Australian second market.

Other specific recommendations (Chapter 8) include:

- Development of a benchmarking system of risks/rewards associated with investment in new ventures and SME’s.
- Re-appraisal of some current policies pertaining to education, direct financial support systems, "Red Tape" and legislation/regulation.
- Further research, funding and evaluation of Australia's first business introduction services.
CHAPTER 2
RESEARCH TOPIC

2.1 DESCRIPTION OF THE PROBLEM

During the past decade Australia experienced its worst recession since the depression of the 30's, followed by a no-growth period and an unemployment rate hovering around 9 per cent which showed only slow improvement.

Similar to economic performance overseas - in Western Europe and the USA - major Australian industries, primary industries and those in manufacturing (eg cars, steel, clothing and textiles, electronics, etc) declined and lost jobs.

However, reports from the USA noted a shift from the traditional job creators - large businesses, Governments, Universities, and other large institutions - to small and medium-sized institutions and businesses, many of them being new businesses. Drucker (in "Innovation and Entrepreneurship", 1985) referred to this phenomenon as the emergence of the entrepreneurial economy in America.

An "entrepreneurial economy" (as described by Drucker) is one in which entrepreneurial management - "the new technology" - is applied to:

- new enterprises, businesses or not;
- small enterprises, not just big ones;
- non-business such as health care and education and
- above all to systematic innovation: to the search for and the exploration of new opportunities for satisfying human wants and needs.

Thus, increased innovation and entrepreneurship, leading to the establishment of new ventures, could be highly desirable developments in a slowly recovering economy such as Australia's.
In effect, increased awareness by the Australian Government of the need for specific policies and programs to create growth enterprises was created by the Espie Report in the early 80's. Its findings listed as a major obstacle the absence of appropriate sources of capital. This resulted in the establishment of licensed Management and Investment Companies (MIC's) and the promotion of the Second Board Stock Market.

Other reviews, both by Government and private bodies, identified key factors influencing the success/failure of new innovative firms and one factor consistently rating high in priority was the availability of and access to affordable finance. Although factors such as appropriate technical and managerial skills, direct financial support through grants and other Government assistance schemes can make the difference between success and failure of innovative enterprises, the absence of financial resources prevents the establishment of such initiatives and therefore retards economic growth and job creation.

Ironically, the problem of scarce new venture capital resources is not new. In the early 80's the onset of high technology industries with high growth potential caused the Australian Government to adopt policies to encourage private investment in the start-up and early growth phases of new "high tech" ventures. Initiated in Perth and followed by Adelaide, Brisbane, Melbourne, Sydney and Hobart, the Associated Australian Stock Exchanges (ASX’s) relaxed their listings rules, for so-called second board listings, to enable new innovative businesses to attract public venture capital.

At the height of its success, in 1987/88, the Second Boards had 482 listings and the Second Board Index exceeded that of the All Ordinaries Index.

A second national initiative was the establishment of Management and Investment Companies (MIC’s). Their aim was to raise the approved amount of capital from investors and to provide financial and managerial assistance for new companies.

Similar schemes commenced in Victoria were the Victorian Economic Development Corporation (VEDC) and the Victorian Investment Corporation (VIC).

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1"The Espie Report" - A report prepared by the High Technology Financing committee of the Australian Academy of Technological sciences for the Minister for Science and Technology, "Developing High Technology Enterprises for Australia", April 1983. The Chairman of the Committee was Sir Frank Espie, OBE, FTS.
However, following the stock market crash in 1987 all these schemes faltered and ceased to exist in the early 90’s.

Thus, with respect to one of the most critical factors in successful innovation and new venture establishment - access to funds - Australia seems to have come full circle within ten years. This cycle of need for funds is illustrated in Exhibit 2.1.

**EXHIBIT 2.1: The need for funds has come full circle in ten years.**

**Significance of the Problem**

The importance of the need for promoting innovation and entrepreneurship and consequently all factors facilitating the establishment and growth of new ventures, was illustrated by the early 90’s high unemployment rate resulting from the inability of the economy to create new jobs.

In addition, lack of venture capital sent many innovations overseas for commercialisation, taking potential economic growth, profits and jobs, out of Australia.
The contribution of small businesses to the Australian economy can not be overstated; they account for some 80 per cent of all businesses and 50 per cent of employment in the private sector. If every business in Australia employed one more person, there would be full employment.

Significantly, similar dilemma's overseas, in particular in the USA and UK, resulted in easier access to capital markets through the relaxation of stock market regulations. So-called secondary markets were successfully launched: during the 70's in the USA, the Over the Counter (OTC) market promoted by the National Association of Securities Dealers Automated Quotation (NASDAQ) system and in the 80's in the U.K. the Unlisted Securities Market (USM).

Their initiatives to raise venture capital were the creation of Small Business Investment Companies (SBIC's) in the USA and the Business Expansion Scheme in the UK (Pratt's Guide to Venture Capital Sources 1988)

Both countries are also promoting informal venture capital investments through a network of business introduction services. Informal, private investors - often known as "business angels" - and businesses seeking finance are matched by an often computerised "financial marriage bureau". (Mason & Harrison 1992)

However, in 1994, although there were signs of an economic recovery, some 900,000 people were looking for a job and the need for business investment incentives was higher than ever.

2.2 OBJECTIVES
While there is an apparent ongoing need for Government policies, programs and other initiatives - addressing key success factors - to promote innovation and new enterprise development, those of critical importance seem to be of a financial nature at the very early stages of establishment.
For this reason research has concentrated on:

"An investigation and analysis of Government initiatives, which had a direct effect on the financial viability of innovative firms during their early phases of establishment, between 1984-1994".

More specifically, the aims and objectives of this project have been:

I. To identify key success factors in innovation and new venture creation and review major Government initiatives in response to identified needs since 1984.

II. To investigate and report on specific measures to promote a venture capital market in Australia, the Second Board Stock Market - 19841992.

III. To undertake a survey of new ventures which sought venture capital through listing on the Second Board (1984-1992).

IV. To review and compare similar initiatives in the USA and UK with those in Australia; and to identify overseas facilities suitable for adoption in Australia.

2.3 METHODOLOGY

In order to obtain an overview of Government policies and initiatives aimed at innovation and new enterprise development, the literature search commenced with a review of all publications on the subject.

The search covered the following data bases, key words and combination of key words.

APAIS: Government Assistance
Innovation
Government Policy
Entrepreneur (shipatial)
New Venture

ABIX: Government
Industry Policy
New Venture
Assistance
Entrepreneurs
Innovation
Influence
New Business

ABI-Inform: Innovation
New Venture
Government
Commercialisation
Economic Development
Relevant selections were made for further study, including reference books and articles held by the Centre for Innovation and Enterprise at Swinburne University of Technology.

Personal contact (by phone or visit) was made with the following institutions (to ascertain the nature of their services);
(a) Rural Finance Corporation of Victoria.
(b) Department of Business and Employment.
(c) Office of Regional Development (Rural Enterprise Victoria).
(d) NIES Business Office (National Industry and Extension Service)
(e) Department of Small Business (Small Business Development Corporation).
(f) Victorian Employers' Chamber of Commerce and Industry (VECCI).

Analysis of the gathered information resulted in an analytical framework presented in Chapter 3, comprising the various stages of development of new ventures, key survival needs and major suppliers of these needs.

At this stage of the research project it also became evident that access to funds by new ventures formed the primary survival need. Accordingly, it was decided to limit further research to Government initiatives specifically aimed at facilitating the commercialisation of innovations.

More specifically, as the Government had supported the establishment of a second primary stock market, "the Second Board Stock Market", between 1984-1992, it seemed prudent to review its operations, its effect on new ventures and the reasons for its demise.

As similar facilities for new ventures survived overseas, research extended to those in the USA and UK.
Thus, a second round of literature search of ABI-Info, ABIX and ABN(Astr. Bibliographic Network) was conducted, using key words such as:

- Second Board.
- Over-The-Counter-Market / OTC.
- Unlisted Securities Market.
- NASDAQ.
- Third Market.
- Deuxième Marché.
- Investment.

To obtain specific information, personal visits were made to the Australian Stock Exchange (ASX), Australian Securities Commission and Victorian Employers' Chamber of Commerce and Industry in Melbourne and requests were made to:

- Fairfax Publishing Co. Ltd. Sydney.
- Australian Stock Exchange, Sydney.
- Department of Industry, Science and Technology, Canberra.

Newspaper articles pertaining to the Second Board, published between 1 January 1984 and 1 January 1992, formed the basis for the discussion of Australia's public venture capital market during that period (Chapter 4).

The search for ex-Second Board companies, which were to take part in the survey, commenced by accessing “STATEX”, the database on companies compiled by the ASX.

When it became evident that information on “STATEX” was incomplete, that records were kept by individual Stock Exchanges (eg Perth, Sydney, Melbourne) but only during the period of listing, and that personal visits to the Stock Exchange would be required to obtain specific information on ex-Second Board companies, it was decided to limit the
search to companies which had Melbourne as home Exchange. (Refer to the next section, Delimitations, for further details.)

Aided by the Investor Centre of the ASX in Melbourne, most if not all second board listings were identified. (The list of ninety companies is contained in Appendix 4.)

In summary, the list of ninety ex-Second Board companies, with Melbourne as home Exchange, was derived as follows:
1. New listings (Melbourne) reported in the ASX Annual Reports 1985-1989;
2. STATEX data base records;
4. Review of the ASX "Second Board Company Review Service", "Company Review Service", "delistings Manual" (which also provides name changes and take-overs) stock market information in "The Age" newspaper, the Melbourne telephone directory and advice form the Stock Exchange Investor Centre in Melbourne.

In view of the ultimate objective to conduct a survey amongst these companies, the following data were collected for each company:
* ASX code and company name
* Head office address and phone number
* Names of Directors/company secretary
* Principal activities
* Dates of:
  – Incorporation in Victoria
  – Second Board Listing
  – Main Board Listing (if any)
  – Name change(s) (if any)
  – Delisting (if any)
When it became evident that delisted companies could not be traced via their last known address, the following additional data (as a potential source of information) were gathered:

* Share Registry.
* Auditors.
* Bankers.
* Solicitors.

In a test case, ten delisted companies were submitted to the above mentioned four sources of information. However, none of them was able to provide a current address or contact name needed for participation in the survey. In consequence, it was decided to exclude all delisted companies from the survey.

Assisted by Melbourne's Investor Centre and telephone directory for current address and phone number, the remaining companies (listed on the ASX) were contacted by phone to ascertain the appropriate contact name. As a result, another two companies were eliminated from the survey; one was taken over, the other had gone into liquidation, and appropriate recipients of the questionnaire could not be found.

Thus, only twenty seven of the ninety ex-Second Board companies in Melbourne were invited to participate in the survey. Details on each of these twenty seven companies is contained in Appendix 5.

The survey comprised a questionnaire and covering letter (refer to Appendix 6 for details) outlining the purpose of the questionnaire; thirteen questions addressed a range of issues, identified during the course of this study, categorised as follows:

- Nature of the business at the time of listing.
- Reasons for listing on the Second Board Stock Market.
- Business needs during the early phases of establishment.
- Effects of the closure of the Second Board Stock Market on 111192.
- Desirable Government initiatives for new businesses.
The twenty seven companies were sent the introductory letter and questionnaire and requested to respond within three weeks, after which a reminder call was made to those companies which had not returned their questionnaires.

In total, thirteen responses were received in the form of nine completed questionnaires, one blank questionnaire (annotated that the company was very small, with no permanent staff and that the questionnaire was inappropriate) and three phone calls to explain that appropriate staff to answers the questions were not available.

The questionnaire consisted of thirteen questions. Four questions were open-ended, six provided multiple choices and three questions required a rated response to a range of factors (variables).

The subsequent data analysis was based on the actual answers given by the nine respondents. The results of the survey are reported in Chapter 5.

The literature search provided input for Chapter 6, Public Capital Markets in the USA and UK. However, an extensive and specific search for 1990-1994 Annual Reports of the US Securities and Exchange Commission (SEC) and the London Stock Exchange was fruitless. Potential sources visited and/or contacted by telephone were:

- ASX, Melbourne, Investor Centre and Library
- Victorian State Library
- Swinburne University of Technology: all relevant data bases (incl. Internet)
- Australian Society of CPA’s
- Potter Warburg, Melbourne (stock brokers)
- Ord Minnett, Melbourne (stock brokers)
- Merrill Lynch, Sydney (stock brokers)
- Australian Financial Review, Sydney
- American Consulate, Melbourne
- American Embassy, Canberra
- British Consulate-General, Melbourne
- British High Commission, Canberra
Ultimately, copies of both Annual Reports (199415) were obtained; the first by phone-order to the SEC and Government Printer in Washington, D.C. and the second through a private contact.

The literature search also provided input for Chapter 7, The Informal Venture Capital Market. In addition, information on a very successful method in the USA and UK to obtain venture capital through so-called "Business Angels" was obtained from the Victorian Employers' Chamber of Commerce and Industry (VECCI). An interview with the co-ordinator of a similar program in Victoria, Mr. Bob Beaumont, provided up-to-date information on this new Government initiative in Australia.

**Delimitations**

The term "Government initiatives" means Australian Government initiatives, and those by the Victorian Government which complement federal initiatives.

The period 1984-1994 was chosen because Australia's need for investment capital in the 80's was as critical as it is in the 90's. During that period both Commonwealth and State Governments undertook a range of policy initiatives to promote economic activity. Although a conceptual framework of key success factors (new business' demands/needs) and Government and other support programs (supplied to satisfy these needs) provides an overview of the issues, further research was limited to one key factor, access to high-risk capital, one of the most significant Government schemes.

Because new ventures primarily require funds without loss of control over their operations, the provision of such funds in early stages of development through: "the Second Board Stock Market" was selected for in-depth study. Research into sources of venture capital overseas was limited to those in the USA and UK, between 1984-1993, because the success of the Over-The-Counter Market in the USA and the Unlisted Securities Market in the UK motivated the establishment of the Second Board Stock Market in Australia.
In this regard, particular attention was given to the survival of secondary stock markets (in USA and UK) and an alternative source of venture capital through "Business Angels" (in USA, UK and Australia).

The search for ex-Second Board Companies commenced by accessing “STATEX” (a package providing information on companies, compiled by the Australian Stock Exchange (ASX). However, information thus collected proved to be out of date and incomplete as the ASX ceased to keep records of delisted Second Board companies.

As a result of this initial search, it was decided to limit the research into ex-Second Boarders to those companies which selected Melbourne as their home Exchange for the following reasons:

(a) Records pertaining to the Second Board Stock Market were kept by individual Stock Exchanges, eg Hobart, Perth, Sydney, Melbourne, etc.
(b) Some Second Board companies were listed on more than one ASX subsidiary on the same or a different date.
(c) Direct access to STATEX at the library was about to be discontinued and frequent visits to the ASX were anticipated; only visits to the Melbourne ASX would be possible.
(d) Most companies which were incorporated in Victoria chose Melbourne as their "home" Exchange.
(e) To enhance response to the questionnaire, direct contact with potential participants was considered essential; companies located in Victoria/Melbourne would keep the cost of such contacts within affordable limits.
Following the identification of some ninety companies which selected Melbourne as their home Exchange, every effort was made to obtain the necessary data (such as current address and phone number) for their inclusion in the survey.

The data were readily available for those ex-Second Boarders which had a Main Board listing on 1 January 1996, but no such data were available for delisted companies.

The share registry, auditors and bankers of a few delisted companies were called and asked for a potential contact name, with reference to the planned survey among delisted ex-Second Board companies, but their responses were negative. In addition, a letter was sent to solicitors Minter Ellison, Melbourne, asking for the same information for some six ex-clients, but the result was the same: once a company was delisted no further contact or records were kept.

As a consequence, the survey was limited to Melbournian ex-Second Boarders which obtained full listing on the ASX and were still a public company at the start of 1996. The results of the study should be interpreted with caution, appropriate to the limited sample.

**Limitations**

Limitations were imposed by:
- Fairfax Publishing Co. Ltd., in terms of the newspaper articles provided;
- ASX, in terms of information on ex-Second Board companies;
- The number of companies responding to the survey;
- Information (especially lack thereof) on overseas stock markets, eg US and UK.
Definition of Terms

(a) Entrepreneur/ial/ship

- someone who always searches for change, responds to it and exploits it as an opportunity;
- someone who shifts resources from areas of low productivity and yield to areas of higher productivity and yield; they create something new, something different; they change or transmute values;
- someone who uses innovation as a specific tool: the means by which change is exploited as an opportunity for a different business or service; it requires application of basic concepts of management to new problems and new opportunities;

   (Drucker 1985)

(b) Innovation

- is the transformation of an original idea, technological breakthrough, new technology or development into new or better commercial products/processes/services which add value to the customer. In short: Innovation = Invention and commercialisation.

   (Pappas et al 1991)

and

- consists in the purposeful and organised search for changes and in the analysis of the opportunities such changes might offer for economic or social innovation.

   (Drucker 1985)

(c) New Venture

- a genuinely new enterprise (business undertaking) which products/processes/services are based on an innovation, something new or different.
(d) Stages of Development (Capital):

-(Based on definitions provided in Pratt’s Guide to Capital Sources 1988 and the Australian Venture Development Capital Directory 1994.)

1. Research and Development
   - following the use of initial seed capital to prove an idea or concept, the systematic development of a product for start up as well as more mature companies.
   - also referred to as "invention" stage.

2. Commercialisation I
   - completion of product development (including prototype) and initial marketing. Usually, firms have done market studies, developed a business plan and management team and are ready to do business.

3. Commercialisation II
   - initiation of full scale manufacturing and sales; growing accounts receivable and inventories require working capital, but not yet showing a profit.

4. Commercialisation III
   - breaking even or profitable increasing sales volume requiring an expansion in plant, marketing and working capital.
5. Maturity

-refers to the stage at which the company may consider going public or buying another company, or product line, or it may expand into exporting or new product developments.

(e) High-Risk Capital

-refers to capital provided for all new ventures, but especially for those in stages 1, 2 and 3 described above.

(f) Private venture capitalists

-are participating investors seeking to add value through ongoing longer-term investment.

(Pratt's Guide to Venture Capital Sources 1988)

(g) Public venture capitalists

-are passive investors; when problems develop the liquidity of a public market investment enables them to walk away from the situation.

(Pratt's Guide to Venture Capital Sources 1988)

(h) Government Initiatives

-Government policies and programs, supported by legislation or not, delivered by Government Authorities including special task forces and committees, and other schemes supported by Government: Commonwealth or Victoria (in this study).
CHAPTER 3
ANALYTICAL FRAMEWORK

3.1 GOVERNMENT INITIATIVES

Research into Government initiatives to stimulate new venture creation indicates that, apart from export market oriented initiatives, the Commonwealth Government appears to have concentrated its efforts on enhancing innovation in the areas of science and technology; industrial areas such as primary industry, manufacturing, tourism and service industries are left largely to private sector initiatives.

High priority has been given to science and technology by the Commonwealth Government since 1983. In its 1989 policy statement, "Science and Technology for Australia", the Government provided significant new funding and in its white paper, "Developing Australian Ideas" (August 1992), it raises four interrelated issues to improve the effectiveness of our national investment in science and technology, ie, Innovation, Awareness, Skills and Infrastructure.

In an earlier report (November '91) the Taskforce on Commercialisation of Research (Dept. of Industry, Technology and Commerce, Canberra) made sixteen major recommendations aimed at gaining more economic benefit from Australian research, based on the premise that commercial potential is best achieved if an identified market demand has been incorporated into research planning and management decisions.

The report also identified factors that hinder the commercialisation of research in Australia, eg, a) impediments arising from the structure and characteristics of Australian industry; b) access to finance, distribution networks and markets; c) shortage of management skills (especially in small business) and d) insufficient interaction between Government funded research institutions and industry.

A new concept in the identification and stimulation of sources of innovation is that these resources differ by industry, and that they include users, suppliers, manufacturers and even distributors.
Based on American research, Eric Von Hippel (1988) proposed that the party who benefits most - the recipient of the highest economic rent - is the most frequent source of an innovation. This process could be influenced by a Government's tax policy or grant system. It also suggests that Government support programs may need to differ in nature and must be based on an accurate understanding of the industry and its sources of innovation.

It looks as though no comparable studies have been done in Australia and Government support programs for innovation do not distinguish between industries and sources of innovation. Because an important source of new ideas (and their further development) is research itself, this may explain the Government's emphasis on effective research enhancing policies.

However, during the 1980's, the vast majority of Government support programs seem to have been financial in nature. In particular, the Victorian Government set up special authorities to facilitate direct government involvement through equity funding in research and commercialisation projects. These were the Victorian Economic Development Corporation (VEDC) and the Victorian Investment Corporation (VIC). The VEDC, in a deregulated financial market, was encouraged to be more aggressive in its lending practices to small businesses which could not attract capital in a regulated financial world, and the VIC provided access to start-up capital of millions of dollars in loans and equity investment to a limited number of companies (about twenty). (Auditor General of Victoria 1989.)

New policies for small businesses in Victoria were detailed in the Victorian Government's Economic Strategy Statement of 1987. (Silver Booklet: "Victoria, Big Opportunities For Small Business"). and covered:

- reductions in regulation, service charges, registration fees and licences;
- improved and expanded training facilities for small firms;
- enhanced role in the delivery of services by the Small Business Development Corporation (SBDC), including the National Industry Extension Service (NIES);
- access to better business information;
- encouragement of entrepreneurship and new business;
- stimulation of increased research and product development; establishment of the Industrial Design Council of Australia (IDCA);
- increased access to public sector purchasing, through the Industrial Supplies Office (ISO).

At the federal level, the licensing of ten Management Investment Corporations (MIC’s) and the gradual establishment of the second board stock market across most States provided access to a new source of investment finance. However, following the failure of most of these initiatives during the late 80’s, the Government adopted strategies of less direct involvement and to encourage others (such as Banks and Superannuation Funds) to provide seed capital through legislation and tax incentives. At the federal level, the House of Representatives' Standing Committee on Industry, Science and Technology (1990), undertook the first inquiry into small business and made some specific recommendations in its comprehensive report of January 1990. If adopted, many of the ensuing policies and programs would enhance innovation and new ventures.

As already mentioned, the Commonwealth Government's white paper, "Developing Australian Ideas" (August '92) promotes a national policy for science and technology. It recommends a range of initiatives in areas of innovation, awareness, skills and infrastructure to improve the effectiveness of investment in science and technology.

**Government Support Delivery Mechanisms**

Victorian Government authorities involved in the delivery of small business programs were:

1. Dept. of Business and Employment (currently: Dept. of Employment, Education and Training).
2. Small Business Development Corporation (SBDC).
6. Office of Regional Development
   - Local Enterprise Development Initiatives.
   - Rural Enterprise Victoria.
At the federal level, during the period 1984 - 1994, the Dept. of Industry, Technology and Regional Development was primarily responsible for industry policy. Its main program delivery agencies were:

1. Special Units (Small Business Unit and Business Regulation Review Unit) within the Dept of Industry, Technology and Regional Development.
3. National Industry Extension Service (NIES provides information on programs being delivered: the National Small Business Information and Awareness Program).
5. Industry Research and Development Board.
6. About thirty four Cooperative Research Centres (CRC’s).
8. CSIRO, ANSTO and AIMS (Government Science Agencies).
9. Genetic Manipulation Authority.
10. Australian Science and Engineering Council (ASTEC).
11. Australian National Training Authority (ANTA).

Given the above, both levels of Government, federal and state, seem to influence "innovation and new ventures" through a range of policies and programs. In this context, the Commonwealth Government is more likely to address issues of research, education, finance, science and technology, while the State Government seems anxious to intervene in areas of more local interest such as regulation (red tape), information, fees and charges on businesses, specific industries with a competitive advantage, industry training and the delivery of both State and Commonwealth programs to small business.

In terms of **efficiency** and effectiveness, very few documents deal with the evaluation of Government support and assistance programs, during the period under review. Peter Fritz in "The Possible Dream" (1988) quotes six case studies in which Government hindered progress.
The Auditor General of Victoria (in its special report No. 11, March 1989, "Financial Assistance to Industry") criticised the adequacy of evaluation techniques of the achievement of industry assistance, eg, lack of adequate performance indicators of specific programs within the strategy and failure to progressively monitor the assistance provided to industry. The same documents also refer to the machinery of Government involved in the delivery of programs; unfortunately comments are not very positive.

3.2 **KEY FACTORS**

A range of documents have been found to contain opinions regarding causes of business failure, but no factor has been identified that guarantees success. However, the same factors leading to failure have also been taken as leading to success when reversed or otherwise applied.

A broad overview of key factors is:

a) Lack of data on the needs of small businesses and the reason for their failure/closure is often quoted as a key factor in not having appropriate Government support programs (HRSCIST 1990);

b) Thorough financial management skills, eg debt management and financial analysis of key accounts and ratios are essential success factors (Block 1989; *BRW* 3 August 1990, pp. 76-78; HRSCIST 1990);

c) Success factors in innovative venturing pertain to marketing, management, integration, technological and financial factors (not readily influenced by Governments except through training) (Gillin & Hindle 1988);

d) Obstacles are a lack of similar factors to those of Gillin and Hindle (1988) in marketing, technology and finance (Pappas, Carter et.al. 1991);

e) There is a need to reduce costs to new businesses due to Government regulations, fees and charges (Victorian Govt. 1987; HRSCIST 1990);

f) Access to affordable finance - in particular seed and development capital and tax incentives is needed (Espie Report 1983; *BRW* 3 August 1990, pp. 76-78; HRSCIST 1990);

g) Government assistance as such is hardly mentioned as a potential success factor (although Government imposed barriers are mentioned as obstacles) except by Hindle & Gillin (1991). They found that public opinion supports the notion that innovation is important in stimulating economic activity and that therefore Governments should support such initiatives with taxpayers' money.
Corporate innovation and new venturing raise a range of different issues, eg

h) The appropriate mechanisms to enter a new business are:
   - internal development and commercialisation,
   - acquisition,
   - joint venture,
   - venture capital investment.
   This is influenced by:

i) The degree of newness of the product and the familiarity of the technology involved to the corporation and/or

j) The degree of newness of the market and the familiarity with market (for the new product) by the corporation (Von Hippel 1977; Roberts & Berry 1985; Sykes 1986; Block 1989; Greenfield 1989).

Research by James Brian Quinn (1985) highlights the similarities in the effective management of innovation in small entrepreneurial enterprises and big innovative companies. It also addresses bureaucratic barriers to innovation that large organisations need to overcome for successful new venturing (Quinn 1985).

The proposal by Scott Shane (1992) that the innovativeness of a society is influenced by its cultural values could affect Government policies and programs.
His research has shown that inventiveness is more likely to occur if a society is less hierarchical (bureaucracy reduces creative activity!) and more individualistic (collective societies value freedom less, are large and inward looking).
The study shows how national values represent characteristics related to innovation at the organisational level (Shane 1992). Could Government policy influence national values related to individualism and hierarchy and therefore the innovativeness of Australians/Victorians?

Peter Fritz in his book "The Possible Dream" (1988) suggests how Governments can hinder and help. Many of his suggestions are reflected in Government initiated reports on the needs of businesses.
The range of new-venture needs or success factors which featured consistently high on the priority list was used to develop an analytical framework (model). These factors are discussed in the next section.

Of these, specific Government initiatives of a financial nature would have either a direct or indirect effect on a new business.

Those with a direct effect are:
- government grants
- government funding (debt and equity)
- tax incentives
- depreciation rates
- purchases by government
- initiatives such as MIC’s, VEDC, VIC
- reduction in fees and charges

Those with an indirect effect are:
- provision of specific education and training
- provision of technical and business information, NIES, etc
- relaxation of rules and regulations pertaining to financial institutions (such as the Second Board Stock Market vs the Main Board Stock Market).

Government initiatives which promote easier access to venture capital were selected for this research project. Special attention has been given to an initiative which seemed highly successful but failed (ie Second board Stock Market), overseas experiences and alternative measures.

The relevance of this choice was highlighted by an article, published in the Financial Review on 21 April 1994, by Sue Mitchell, "Innovative firms face funding problems". It refers to the findings of a study by the Bureau of Industry Economics in that "the most problematic area is the availability of finance, both debt and equity, for start-up and developing firms".
However, it also found that traditional policy responses had not been successful and were unlikely to succeed because of the special characteristics of innovative small firms. Those characteristics mentioned are:

i. innovative small firms prefer to finance their innovations from internal funds due to the uncertain commercial future;

ii. technological information requires owner/managers to concentrate on their technical skills;

iii. joint ventures with another firm to provide the missing skills/resources create problems related to control of the business, protection of intellectual property and appropriateness of partners.

Federal and State Governments have still not developed effective policies/programs, including appropriate evaluation techniques, to boost innovation and the successful start-up and development of new ventures.

3.3 MODEL (Refer to Exhibit 3.1, page 30)

As defined in Chapter 2, every new venture develops through stages from Research and Development (Invention), Commercialisation I, II and III, to Maturity - outlined in column C1.

In terms of innovation (generally encompassing research, development and the early phases of commercialisation), particular attention has been given in the present study to a new venture's needs during early commercialisation (stages I and II) and those survival needs identified are summarised in column C2.

Column C3 highlights the single most important financial success factor - access to High Risk Capital which forms the focus of this research project.

Potential suppliers of financial resources (and other requirements) are listed in columns C4 and C5. Those of particular relevance to meeting financial needs during early commercialisation of a new venture are emphasised.

Sources of venture development financing are found in both the private and public sectors.
Among the private venture capital sources are:

- private partnerships, including family and "Business Angels";
- venture capital funds formed by banks;
- divisions of major corporations;
- affiliates of investment banking firms;
- direct venture investment activity by insurance companies, pension funds or investment advisory firms.

The public market place is an uncertain friend of the small growing company. Public financing is almost impossible for a new company to obtain in times of recession, and the decision to "go public" must consider the receptiveness of the market for new issues in small companies.

The differences between private and public financing of venture developments are significant. Private venture capitalists may be defined as "participating investors seeking to add value through ongoing longer-term involvement". (Pratt’s Guide to Venture Capital Resources 1988.)

Public investors, however, are passive investors; when problems develop, the liquidity of a public market investment enables investors to walk away from one situation in search of another.

A normal progression of business development financing would entail private investment until such time as a business’ success was clearly evident, including a level of profitability to overcome subsequent problems. At this time, subsequent financing from the public market place can provide funds for significant expansion as well as establishing liquidity for management and early investors.

The next four Chapters deal with the issue of access to venture capital and Government initiatives.

Chapter 4 reviews the public venture capital market in Australia, with particular emphasis on the rise and fall of the Second Board Stock Market. Results of a survey among ex-Second Board Companies are detailed in Chapter 5.
As venture capital is once again quite scarce in Australia, it seemed appropriate to look overseas to find out how similar economies coped with the need for venture capital during the same period 1984-1993. Thus, Chapter 6 reviews developments in the public capital market in the USA and United Kingdom, with particular emphasis on the US' NASDAQ (over-the-counter market for mainly unlisted securities) and the UK’s Unlisted Securities Market (USM). Some reference is also made to France's "Deuxième Marché".

Finally, in Chapter 7, the Informal Venture Capital Market is addressed. Commencing with an overview of developments in the USA and United Kingdom, the concept and operational issues of establishing business introduction services in Australia is discussed.
### Exhibit 3.1  Key Research Elements

#### C1
**Innovative Firm**

<table>
<thead>
<tr>
<th>Stages of Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Research and Development</td>
</tr>
<tr>
<td>2 Commercialisation I = Prototype + Start-up</td>
</tr>
<tr>
<td>3 Commercialisation II = Sales, No Profit</td>
</tr>
<tr>
<td>4 Commercialisation III = Profit + Growth</td>
</tr>
<tr>
<td>5 Maturity = Takeover/Expansion, Export development</td>
</tr>
</tbody>
</table>

#### C2
**Survival Needs/Demands**

<table>
<thead>
<tr>
<th>Key Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Skills</td>
</tr>
<tr>
<td>Management Skills</td>
</tr>
<tr>
<td>Networking</td>
</tr>
<tr>
<td>Financial resources</td>
</tr>
<tr>
<td>- Debt</td>
</tr>
<tr>
<td>- Equity</td>
</tr>
</tbody>
</table>

#### C3
**Key Factors**

- "High Risk"
- Capital/Debt/Equity

#### C4
**Sources/Supply**

- **Education and Training Programs**
- "Red Tape"
- Depreciation Rates
- Tax Incentives

- **Public Venture Capital Market:**
  - Australian Stock Exchanges

- **Private Venture Capital Market** (formal):
  - MIC’s
  - Banks
  - Pension Funds
  - Insurance Companies

- **Informal Venture Capital Market:**
  - "Business Angels"

- **Government Policies**
- Legislation

- **Govt. Grant Scheme**
- Purchasing by Govt. Depts.
- Govt. fees + charges reduced
- Technical + Business information

- **Govt. Grant Scheme**

#### C5
**Sources**

<table>
<thead>
<tr>
<th>Private Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Policies</td>
</tr>
<tr>
<td>+ Legislation</td>
</tr>
<tr>
<td>Institutions</td>
</tr>
</tbody>
</table>
CHAPTER 4
PUBLIC VENTURE CAPITAL MARKET IN AUSTRALIA

INTRODUCTION
Chapter 4 is based on a content analysis of material published between 1 January 1984 and 1 January 1992 in the following newspapers and magazines:

Australian Financial Review (AFR)
Business Review Weekly (BRW)
Herald Sun (HS)
Personal Investment (PI)
Sydney Morning Herald (SMH)
Telegraph
The Age
The Australian
The Bulletin

Copies of most of the articles (unfortunately without page numbers) were purchased from Fairfax Publishing Co. Ltd.

The full list of articles, listed in chronological order by reference source, is contained in Section II - Bibliographical documents pertaining only to Chapter 4, of the Bibliography.

4.1 AUSTRALIA'S CAPITAL MARKET
Australia's Capital Market consists of a complex framework of financial intermediaries that channel savings into investments in productive facilities. Elements of a modern capital market are markets for long-term and short-term securities and a useful distinction is made between the primary and secondary markets for such securities.
Primary and Secondary Securities Markets
The primary market for securities is the new issues market for securities which brings together the supply and demand for new capital funds. In this market newly issued securities are bought for the first time and the principal sources of funds are the domestic savings of individuals and those of non-financial businesses. Principal uses of funds are long-term financing of housing (mortgages), investments of corporations and borrowing by Governments. Most individual investors are not familiar with the new issues market and its institutions.

The secondary market for securities is the stock market in which securities are traded after they have been issued. The stock exchange, as this market is also called, enables buyers and sellers to effect their transactions more quickly and cheaply than would otherwise be possible. Because the stock market or exchange deals in existing securities its economic significance is often misunderstood: it is not a source of funds for businesses to finance capital investments. Australia's stock exchanges are both primary and secondary markets.

Function of Stock Exchange
The basic economic function of a stock exchange is to provide a source of finance and greater liquidity for new security issues and to reduce the personal risk incurred by investors. It broadens the supply of equity and long-term debt capital for the financing of business enterprises. Over the life of the enterprise the fixed investment in stock is provided by a changing group of individuals. As far back as the 14th century the Government of the State of Florence converted its indebtedness into stock which carried 5 per cent p.a. interest. (Vemeesch & Lindgren 1990).

In 1556 the Stock Exchange was founded in England and three years later Queen Elizabeth named it "The Royal Exchange". The New York Stock Exchange was founded in 1792 and is commonly referred to as "Wall Street" The first stock exchange in Australia was formed in Melbourne in 1861. In 1872 a club was formed in Sydney known as the Sydney Stock Exchange. The other capital cities followed suit some years later and before the close of the nineteenth century a stock exchange, modelled greatly
on the English pattern, was operating in the capital city of each Australian State. (Vermeesch & Lindgren 1990).

**Securities Legislation**

A Stock Exchange may be defined as a place where people meet in order to buy and sell securities and until 1970 Australian Stock Exchanges were not regulated by legislation or by any government instrumentality. However, events associated with the "mining boom" resulted in individual State Securities Industry Acts 1970, which made it an offence to set-up stock markets other than those of Stock Exchanges mentioned in or approved under those Acts.

The general aim of the States' legislation was "to make provision with respect to Stock Exchanges and stock brokers and other persons dealing in securities; to create certain offences related to trading in securities to constitute a Corporate Affairs commission; and for purposes connected therewith".

Under the legislation it was required for stock exchanges to be incorporated by becoming companies limited by guarantee, and membership of an exchange was governed by its articles of Association (eg to be of a certain age and have a certain amount of stock **broking** experience). Even if admitted as a member, the applicant needed to acquire a "seat" on the exchange, which used to be very expensive until the membership rules were relaxed to admit incorporated stockbroking firms.

Thus, the establishment of the Australian Associated Stock Exchanges and the National Companies and Securities Commission ensured some interstate uniformity and protection of members of the public and the national interest as the Commonwealth lacked the constitutional power to legislate the control of the securities industry.

---

1 Preamble to the principle Act, the Securities Industry Act 1970 (NSW).
Overview
An overview of the capital market is provided in Exhibit 4.1.

On the supply side of capital funds, many buyers of securities (in consideration of these funds) can be identified, in both the private and public sectors. There were a few venture capital companies operating in the 1970’s, but the so-called MIC’s (Management and Investment Companies) and "Cash Boxes" have only come into being since 1984 as a result of the Government's response to the Espie Report\(^1\) which recommended measures to make access to venture capital easier.

On the demand side, Governments, their Authorities and "Blue Chip" Corporations form the "least risk/safe investment" market.

Medium to large "Green Chip" Corporations and smaller companies selling securities form a higher risk, dependent upon the stage of development of the enterprise.

4.2 BACKGROUND TO A NEW VENTURE CAPITAL MARKET
During the early ‘80’s three unrelated factors coincided to create an opportunity in Australia's financial market to establish what would become known as "the Second Board Stock Market": a new primary (new share issues) and a new secondary (trading of issues) share market especially suited to new ventures. The three factors creating the opportunity were: deregulation, market needs and overseas influence.

Deregulation
The major thrust was provided by sweeping changes to brokerage and membership requirements during 1982183 and the diminishing numbers of listed companies on the Main Board.

\(^1\)Refer to footnote on page 5.
Exhibit 4.1: Capital Market

Supply of Capital / Buyer of Securities

A. Private Sector
1. Individuals and
2. Non-finance Companies' savings are available for Investment via
3. Intermediaries, such as
   - Banks: Trading, Saving
   - Pension Funds
   - Life Insurance Co's
   - Credit Unions
   - Special Finance Institutions, such as BLE Capital
   - Large Accounting and Legal Firms
4. Since 1984
   Federal Government Licensed Management and Investment
   Companies (MIC's)
5. Parallel MIC's
6. "Cash Box" companies

B. Public Sector (Mainly Debt)
1. Governments
   - Special Federal funding schemes
   - Special State funding schemes (eg. VEDC)
2. Technology Parks (eg. Adelaide)
3. Commonwealth Development Bank - some equity

Demand for Capital / Sellers of Securities

(in order of increased risk)
1. Governments and their Authorities,
   - Commonwealth
   - State
   - Municipal
2. Listed "Blue Chip" International Corporations
3. Listed large and medium sized companies, "Green Chip"
4. Non-listed medium and small companies and
   firms/individuals

The finance-risk increases/decreases commensurate with the
company's stage of development

Finance Stages:
- Management Buy-out
- Leveraged Buy-out
- Expansion
  (Co's sales and profits are
  stable or growing),
  - eg "Blue Chips"
Stage 1 - Finance
- Co start-up and pr
  (before any sales)
Stage 2 - Finance
- Development and growth
  stage. (Co makes sales and
  profits) - eg "Green Chips"
Stage 3 - Finance
- Co making sales, but no profits.
The Trade Practices Commission and newly established Merchant Banks questioned the restrictive requirements of Australia's Stock Exchanges, which resulted in relaxed membership rules, ie incorporation of stockbrokers was allowed and flexible brokerage fees were introduced.

Table 4.1 shows the decline in all but one of the years 1970-71 to 1983-84 in the number of listed companies on Australia's Associated Stock Exchanges, located in Sydney, Melbourne, Brisbane, Adelaide, Perth and Hobart.

The de-regulation meant a threat to the long term future of the smaller exchanges, which needed a stronger base to continue to operate as independent Stock Exchanges.

**Table 4.1: Number of Companies Listed with Australia's Associated Stock Exchanges**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>LISTED COMPANIES</th>
<th>ADDITIONS</th>
<th>REMOVALS</th>
<th>NET MOVEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>1621</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1971-72</td>
<td>1595</td>
<td>45</td>
<td>(71)</td>
<td>-26</td>
</tr>
<tr>
<td>1972-73</td>
<td>1525</td>
<td>30</td>
<td>(100)</td>
<td>-70</td>
</tr>
<tr>
<td>1973-74</td>
<td>1454</td>
<td>16</td>
<td>(87)</td>
<td>-71</td>
</tr>
<tr>
<td>1974-75</td>
<td>1412</td>
<td>4</td>
<td>(46)</td>
<td>-42</td>
</tr>
<tr>
<td>1975-76</td>
<td>1321</td>
<td>3</td>
<td>(94)</td>
<td>-91</td>
</tr>
<tr>
<td>1976-77</td>
<td>1255</td>
<td>11</td>
<td>(77)</td>
<td>-66</td>
</tr>
<tr>
<td>1977-78</td>
<td>1184</td>
<td>6</td>
<td>(77)</td>
<td>-71</td>
</tr>
<tr>
<td>1978-79</td>
<td>1110</td>
<td>13</td>
<td>(87)</td>
<td>-74</td>
</tr>
<tr>
<td>1979-80</td>
<td>1081</td>
<td>37</td>
<td>(66)</td>
<td>-29</td>
</tr>
<tr>
<td>1980-81</td>
<td>1073</td>
<td>39</td>
<td>(47)</td>
<td>-8</td>
</tr>
<tr>
<td>1981-82</td>
<td>1031</td>
<td>22</td>
<td>(64)</td>
<td>-42</td>
</tr>
<tr>
<td>1982-83</td>
<td>993</td>
<td>18</td>
<td>(56)</td>
<td>-38</td>
</tr>
<tr>
<td>1983-84</td>
<td>1001</td>
<td>61</td>
<td>(54)</td>
<td>+8</td>
</tr>
</tbody>
</table>

Source: Australian Stock Exchange.

**Overseas Models**

Successful models of a secondary stock market could readily be found in the Over-The-Counter Market in the USA and the "Deuxieme Marche" in France but particularly in London's Unlisted Securities Market (USM).
Established in 1980 with eleven companies USM listed 220 companies by 1984, raising 300M pounds; only four companies were delisted during that time while 70 per cent of the turnover was provided by institutional funds, an indication of the trust placed in this market by the large investors. By February 1987, the USM listed around 400 companies, with fifty having moved to the main board.

Although a study published by U.K. Chartered Accountants Spicer & Pegler in 1984 (quoted by Whitmont & Grant-Taylor 1984) warned that the USM had only operated in a "bull" market and that it had yet to be tested in a major "bear" phase, Australia's National Companies and Securities Commission and the Ministerial Council (comprising State and Federal Attorneys General) were very much in favour of a "junior market" the establishment of which was approved in early 1984.

**Market Needs**

But the real impetus for a second bourse however infant was the need to keep new venture opportunities in Australia.

On many occasions, innovative ideas had been lost because an inventor or a company promoter could not attract sufficient capital.

In particular, the development of an advanced technology base in Australia (strongly promoted by both Federal and State Governments) required access to capital funding by smaller companies, which were unable to meet the main board listing requirements.

Whereas main board listing requirements included a minimum of 300 shareholders, $300,000 minimum paid-up capital, equal voting rights - one vote per share - and 25 per cent of capital in public ownership, the concept of a junior share market was based on the need of small companies to have access to finance on more favourable terms than would normally be available to unlisted companies, and to be able to retain control of the enterprise by holding shares with more advantageous voting powers than those held by other shareholders.
This latter control provision was designed to encourage private entrepreneurs into the public fund-raising arena while sheltering them initially from corporate predators.

The highly influential Espie Report\(^1\), whose recommendations lead to the setting-up of Management and Investment Companies (MIC's) to assist in the financing of high growth companies, also suggested that a second board stock market be established.

These MIC's supported a secondary market system because it would provide "exit mechanisms" for their equity investment: that is, a simple process for all venture capitalists who would wish to withdraw or reduce their interest in a company by the disposal of shares.

**Opportunity**

Thus, the decline in the primary or main board stock market, successful launches of secondary markets overseas and the need of smaller companies to attract investment funds to establish new ventures in Australia, created the opportunity for a new lease on life for the smaller Stock Exchanges in particular.

Perth Stock Exchange accepted the challenge to become the first Australian Stock Exchange with a second board listing and succeeded in June 1984. Almost one year later, Adelaide and Brisbane followed this example in April '85, Melbourne and Sydney in May '85, and Hobart in October '85.

**4.3 THE SECOND BOARD**

So, where did the second board mechanics, operations and listing requirements differ from, and what advantages and disadvantages were associated with, a second board listing?

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\(^1\) See footnote page 5.
**Difference from Main Board**

In terms of sharedealing by stockbrokers and board operations by personnel of the Stock Exchange, there was no difference between those pertaining to the Main and Second Boards. Dealings are "order-driven" and a trade results when there is a match between a seller, offering shares at a certain price, and a buyer, requesting shares at that price.

While the more frequently traded stocks were quoted on the Main and two Side Boards, adorning three walls of the Melbourne Stock Exchange floor, a much smaller board was placed in one corner to record Second Board stock quotations.

Compared to the twenty three Main Board groups or categories and associated share price indices, the Second Board stocks formed just another listing category with a separate board for quotations.

However, in terms of listing requirements of companies, those for the Second Board differed drastically from those for the Main Board. With minor differences amongst States, listing rules were relaxed in the critical areas of minimum issued capital, minimum number of share-holders, shares with different voting rights, lower listing fees and more relaxed reporting requirements.

(A more detailed list of Second Board listing requirements is in Appendix 1).

**Advantages**

The arrival of the Second Board Stock Market was hailed by some as "just about the greatest thing since chalk", "a most useful and acceptable innovation for both companies and investors" and "the most major event in the Australian stock market of the last decade" (Batties, R., The *Age* 3 March 1985.).

So, for whom and what were the advantages and benefits of this innovative event?
As already mentioned, the key advantage would be that smaller companies, unable to fulfil all the Main Board listing requirements, and new, high risk companies, would have access to capital funding at better terms than those offered by traditional new venture financiers.

Another important benefit would be that these companies, often inventor and family owned, could retain control of their enterprise although they held less than 50 per cent of the shares.

Other benefits to the Companies listed on the Second Board included (ASX 1987):
- increased status for a small Company, through its listing;
- increased marketability of the Companies’ shares;
- increased ability to make take-over bids, together with better borrowing opportunities;
- a less expensive way to have access to equity capital than through the Main Board or other forms of capital;
- opportunity to raise fresh capital annually to finance fast growth through a new share issue;
- immediate access to funds raised;
- finance potential based on cash flow prediction instead of asset backing;
- removal of personal guarantees for company debt from Directors;
- through the sale of shares, market-valuation could be considerably higher than the valuation which an accountant might put on the business;
- public company status for tax purposes;
- positive intangible benefits through "exposure" as a result of its listing;
- it could use equities as an incentive to attract or retain key personnel;
- some companies could use the second board listing as a stepping stone onto the Main Board.

Research by the ASX in association with the Australian Second Board Consultants (ASBC) into reasons and achievements of Companies which listed on the Second Boards of the Melbourne and Perth Stock Exchanges (November 1987) confirmed a high level of achievement of the benefits listed (ASX 1987).
"To enable the company to raise money for expansion" was achieved by 84 per cent of Melbourne and 95 per cent of Perth companies. (ASX 1987)

Less capitalisation, easier admission requirements and the lack of trading history were the key reasons given for choosing the Second Board rather than the Main Board, by almost 80 per cent of responding companies. (ASX 1987)

To potential investors/shareholders advantages included:

- greater marketability of their shares;
- potential for high earnings or capital growth;
- simple exit mechanism through sale of shares;
- greater choice in investment opportunities.

To Australia as a whole, considerable economic benefits would flow through the retention and expansion of new innovative businesses in this country (ASX 1987).

**Disadvantages**

However, as history has shown, the junior stock market also had severe drawbacks.

Disadvantages, in particular to potential investors/shareholders, included (ASX 1987):

- an untested market in times of economic downturn;
- exclusion of mining/oil companies and property trusts (limited to industrial companies);
- less liquidity (for dividend payment);
- less press coverage and less information regarding Second Board Companies (compared to Main Board);
- investing in Second Board listed companies had to be described as "speculative" and "risky".  

To newly listed companies disadvantages included:
- higher level of accountability;
- greater pressure to perform;
- some loss of control by original owner;
- increased public scrutiny and regulation by Stock Exchange;
- greater incidence of reporting and financial regulation (Tax);
- increased management costs, eg listing fees, audit fees, prospectus and other reports' publishing costs;
- value of business subject to market sensitivities (which are sometimes irrational);
- separate listings in each State required (not a national market).

During its first year of operation, Perth Stock Exchange experienced teething problems and the W.A. Corporate Affairs Commission, Stock Exchange of Perth and the National Companies and Securities Commission tightened regulations to ensure companies issued prospectuses for every new share issue, provided the public with fair and honest information and made no illegal share placements (through an initial price-ramping to a pre-determined figure, followed by a further share issue on the basis of the inflated price).

Also during the first year of operations, Second Boards attracted the image of de facto Hi-Tech boards. The dominance of Hi-Tech Companies was not a prime objective of the Stock Exchange, but their emergence together with some early big gains created an image of the Second Boards as a source of fast money.

However, by the end of 1985, the shake-out of Hi-Tech Companies had started and there were concerns that this would lead to a significant downward re-rating of most Second Board Stocks.
4.4 THE RISE AND FALL OF THE SECOND BOARD

Between end '85, when all Stock Exchanges had opened a Second Board listing facility, and end '87, when the share market collapsed, the secondary share market enjoyed spectacular growth. In particular 1986 could be viewed as "The Year of the Second Board".

**Special Services**

The new market really captured the imagination of the investment industry and its advisers, who commenced to cater specifically for the fastest growing investment avenue in Australia.

In Melbourne ex-brokers Graeme Little and Carl Wilson established Australian Second Board Consultants Pty Ltd (ASBC) specialising in advising and assisting smaller companies with listing requirements, transfer to the Main Board, merger and acquisition procedures for second board companies and unlisted public and private companies.

ASBC was one of the first share market specialists to realise that the Hi-Tech boom was over and to shift its focus from companies with "a good idea" to companies with a "sound track record", as well as good management to continue its operations.

In June 1986, in conjunction with the Sydney Stock Exchange Research Department, ASBC compiled the official Australian Second Board Index, reported regularly by ASBC. They continued to review and report quarterly on all aspects of the Second Board Market, including the emergence and involvement of ancillary services such as Second Board Consultants, accounting firms, legal profession, stockbrokers, specialist Second Board brokers and underwriters. ASBC research often formed the basis for other analysts' articles in the newspapers quoted in Section II of the Bibliography.
Special Publications
In June 1986, publishing group "Information Australia", in conjunction with Richard Green, Director of Melbourne sharebrokers Bach Cortis and Carr, published "The Book of the Second Board Stocks". This publication only addressed the "little league" of listed companies; aiming at the general investing market it provided background information, financial summaries, products, capital growth and other useful information on each Second Board company. Its first issue listed nearly 100 companies (mid '86) in Perth, Melbourne, Sydney, Adelaide, Brisbane and Hobart and dispelled the impression that Second Board Stocks were mainly "high tech"; only about 30 percent could be called that.

The national Second Board Association, a lobby group interested in all parties in the Second board mix, investors, companies and ancillary services, commenced a monthly newsletter from May 87.


Australian Second Board Index
During July '86 it was reported that the Second Board was experiencing a surge in investment by big institutions, with more than 50 institutional investors having holdings in 40 per cent of Second Board companies.

The official Australian Second Board Index, covering all stocks listed on the six boards and compiled in conjunction with the Stock Exchanges, had risen 134 per cent since 31 March 1985 (from 1000 to 2344). This compared with a 59 per cent increase in the All-Industrials Index and a 24 per cent increase in the All-Ordinaries Index.

By 30th of September 1986, the three indices had risen 157 per cent, 64 per cent and 50 per cent respectively since 31st of March 1985. (Refer to Appendix 2 for details regarding these indices).
Summary: 1986 Performance

During August '86, the Australian Second Board market cracked the $1 billion mark; in the five months period from mid March to mid-August, capitalisations rose from $511 million to $1 billion.

Also, the capitalisation for the Melbourne junior market reached $366 million, which outpaced Perth for the first time since its establishment in June 1984.

The September 1986 quarter saw a virtual doubling of the national turnover in share trading to more than $200 million (seven times higher than the March quarter). This put to rest the myth that Second Board Stocks were thinly traded. ASBC statistics further showed that three out of four companies were trading at a premium and one in seven was trading at a premium of more than 200 per cent.

The major growth sector continued to be finance and investment, in which market capitalisation jumped from 7.5 per cent in 1985 to 42.6 per cent in 1986 of total.

Although many top performers were in the Hi-Tech areas, the early emphasis on new ventures and high technology continued to slow; market capitalisation of the Hi-Tech companies as a percentage of total Second Board market capitalisation slumped form 20.5 per cent in 1985 to just 2.9 per cent in 1986.

During 1986 each quarter recorded an increasing number of Company listings on the Second Board from 83 (end '85) to 105 (April '86) to 128 (June '86) to 153 (September '86) to 202 (December '86). Only two companies failed, while sixteen (8 per cent) joined the big league.

In the twenty one months from 31 March 1985 to the end of 1986, the National Second Board Index rose by 193 per cent (from 1000 to 2925.6) compared to a 78 per cent rise in the All-Ordinaries Index.
The only Main Board sectors to out-perform the Second Board were media, gold, merchants and agents, and diversified and miscellaneous industrials.

Table 4.2 provides a breakdown of activities of companies listed on the Second Boards, November 1986.

Table 4.2 Second Board Companies by Breakdown of Activities (Nov.-’86)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of companies</th>
<th>Market Capitalisation ($m)</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary production</td>
<td>10</td>
<td>197.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Processing/metals</td>
<td>7</td>
<td>90.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Construction/property</td>
<td>11</td>
<td>81.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Building/industrial materials</td>
<td>2</td>
<td>11.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Engineering</td>
<td>23</td>
<td>125.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Electronics/electricals</td>
<td>13</td>
<td>157.3</td>
<td>8.0</td>
</tr>
<tr>
<td>Office equipment</td>
<td>3</td>
<td>27.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Service</td>
<td>16</td>
<td>118.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Finance and investment</td>
<td>34</td>
<td>746.7</td>
<td>37.9</td>
</tr>
<tr>
<td>Tourism and leisure</td>
<td>10</td>
<td>50.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Media and film</td>
<td>11</td>
<td>83.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Retail</td>
<td>10</td>
<td>65.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Food and brewers</td>
<td>7</td>
<td>21.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Health and household</td>
<td>10</td>
<td>106.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>8</td>
<td>84.9</td>
<td>4.3</td>
</tr>
</tbody>
</table>

**TOTAL 175 1968.5 100**

Source: Australian Second Board Consultants Pty. Ltd.

A change in listing trend was also noticeable in 1986: from a dominance by new Hi-Tech companies to a mere 25 per **cent** (49) of the 202 listed companies (Dec. ‘86), while the number of already established businesses seeking funds for growth or diversification increased to 66 or 32 per cent.

Of the 120 new listings during 1986, 30 per cent were finance or investment companies, topping the list ahead of the next most common category, health, and signalling the impending boom in so called "cashboxes".
Nation-wide, market capitalisations exceeded $1 billion in August 1986 and $2 billion in December 1986, while the average initial raising (by a company) was $3.9 million in 1986, compared with $1.26 million in 1985.

Finally, 1986 could boast the entry into the secondary market by three leading broking firms (Paul Morgan & Company, Dominguez Barry Samuel Montagu and Potter Partners), giving it considerable weight. These brokers regarded the Second Boards as the province of development capital as opposed to venture capital, an area better served by Management and Investment Companies (MIC’s) which offered incentives for investors and which were governed by special rules to ensure investments were not hasty.

**Controversial Issues**

At the beginning of 1987, and after two years of growth of the Second Board market in Australia, a range of controversial issues started to be raised.

a) The Melbourne and Sydney Stock Exchanges favoured a unification of Second Boards with uniform listing requirements and better information gathering and dissemination processes. But the smaller Second Boards resisted these proposals, concerned that a national system would reduce the stimulating effects on the State economy and local business level by the individual Second Boards (ASX 1987).

b) Concerns within the industry also related to the fact that the success of the Second Boards had been in the climate of a bull sharemarket, which would not last forever. The need for more research on Second Board companies similar to the Sydney Stock Exchange Research Service (for Main Board Stocks) was identified to ensure greater stability of the Second Board market and such a service was made available from 1985 onwards (Personal Investment February 1987).

c) By 1987, only sixteen or 8 per cent of Second Board companies had moved up to the Main Board and this was considered a disappointing result as Second Board listing should not be seen as an end in itself, but as a learning ground and a feeder of new companies to the Main Board (West, G., AFR 18 February 1987).
The reason for relatively few companies graduating to the Main Board was partly because people who had controlled their own businesses for some time had a trepidation about going on the stock market, and partly because of the poor performance of several companies which had moved to the Main Board (West, G., AFR 18 February 1987).

"Cashbox" Boom
The Australian Stock Exchange Ltd., incorporated in the A.C.T. by an Act of Parliament (Australian Stock Exchange and National Guarantee Fund Act 1987) commenced business on 1 April 1987 and, on that date, the National Listing Committee began operations to bring all various regulatory procedures for the Main Boards of the now subsidiary State Stock Exchanges (6) into a uniform code, with a view to unifying the Main Boards into the Australian Stock Exchange (ASX), excluding the Second Boards.

Also on 1st April 1987, new listing requirements for Second Board companies were revealed. These aimed in particular at so-called "Cashboxes", finance and investment companies, which had started to flood the Second Board.

During 1986, thirty eight new listings or 30 per cent of all new listings were "cashbox-type" finance or investment companies. They typically took a "trust me" approach without identifying a definite aim for their investors' funds. The new rules would force finance and investment companies to earmark 50 per cent of funds for specific investments.

Meanwhile, the NCSC was reported as considering a further crack-down on the flood of "cashboxes" through restrictions similar to finance companies, such as limited borrowing and keeping investments to 5 per cent of shares of other companies.
The reasons for the dramatic increase in the number of companies specialising in investing
in other companies were not difficult to find:

a) Market indices were surging ahead, attracting investment funds, and "Cashboxes"
   were easy to set up;
b) the Australian Stock Exchange had made a decision to channel all such companies
   through the junior lists;
c) following the spate of takeovers in 1986, unemployed experienced senior managers
   now preferred to start their own business.

In their March '87 quarterly report, Australian Second Board Consultants (ASBC) noted
that 30 out of the now 240 listed Second Board Companies (mainly in Melbourne and
Sydney) were "Cashboxes".

"Cashbox" Brakes
Unfortunately, no distinction was made between bona fide "cash-boxes" which responded
in a responsible manner to the supply and demand for investment funds (similar to
Government - Licensed Management and Investment Companies, MIC's) and mere "shell
companies", companies with vague goals, poor management, minimum shareholders and
funds used by companies to obtain a listing via "the back door".

As usual, it was the Perth bourse which was first in getting on to the new scam of such
"shell cashboxes", companies with no assets or solid businesses and without telling its
shareholders what they intended to do with raised funds. (Frith 1987d, AFR)
In May 1987 it introduced the following additional requirements for investment companies:

a) to report quarterly on positions taken in public and private companies;

b) minimum issued capital to be $1.0 M;

c) differential voting rights not to apply;

d) the prospectus to state, prior to commitment, investment plans for 50 per cent of assets to be retained in cash, fixed interest securities or listed equities;

e) the prospectus to state borrowing limitations;

f) investment of 20 per cent and more of its assets in any one company only with shareholder approval;

g) investment of 10 per cent and more of its assets in companies associated with the investing company only with shareholders' approval.

The definition of an investment company was: "a company with more than 50 per cent of its assets in liquid capital".

Whereas Brisbane, Adelaide and Hobart Stock Exchanges also introduced restrictions to Second Board cashbox listings (however less severe than those adopted in Perth), Melbourne and Sydney Stock Exchanges banned such listings on their Second Board altogether and national Main Board listing requirements were tightened.

During July and August 1987, the Australian Stock Exchange (ASX) was bitterly attacked by company advisers and analysts for its "shotgun" approach against the cashboxes (Frith 1987f, 1987g, AFR; Norington 1987e, SMH). Claims were made that the ban was unnecessary (as no scandals had involved this type of company and that the fate of cashboxes should be left up to the market) and discriminatory (as the same concept was allowed to flourish through the Main Board, backdoor listings and the unlisted equity trust market). It was seen as an attempt to stifle interest in the Second Board, (now outperforming the Main Board) with 308 listed companies, capitalised at $4 billion. What enraged professional advisers most was the way in which the ban and other rule changes were imposed - without consultation, without advance notice,
without anyone being told - by a public announcement in July that the new rules were adopted from April 1987.

Although the ASX's Listing Committee's decision could damage public opinion of the Second Board (as a breeding ground for companies that were big on ideas but short on products) and flew in the face of the impressive track records of some Second Board "cashbox" companies (eighteen of the Second Board's top twenty five performers of all time were "cashboxes", refer to Table 4.3), it soon became apparent that bona fide "cashboxes" had nothing to fear. The ASX's ban largely aimed at stopping abuse of the Second Board, and preventing a fall in the standard of market information and public opinion of the Second Board, by blocking the listing of dubious "cashboxes" which in effect were merely vehicles for backdoor listing (thus circumventing the critical review by the Corporate Affairs Commission).

Accordingly, the ASX's move, if successful, was eventually seen as of benefit to the Second Board's long-term development. (Upton 1987, SMH)

Table 4.3 illustrates the performance of some Second Board "cashbox" companies: eight of the top ten are "cashboxes", four of which graduated to the Main Board.

Throughout the Second Board's seven years history, three Exchanges developed a distinct trend in Second Board listings.

* **Perth** was the first by almost one year and always had the highest number of companies listed. The Perth Exchange also promoted the largest proportion of High Tech companies.

* **Melbourne** distinguished itself by the highest capitalisation and share turnover figures. It got some of the most successful companies going and listed few High-Tech enterprises.

* **Hobart** was most successful through its "cashboxes". Eight progressed to the Main Board. At one stage it had sixty "cashboxes" listed as it refused to comply with the ASX's tougher Listing rules for investment and finance companies.
Table 4.3 Top Second Board Stocks

<table>
<thead>
<tr>
<th>Name</th>
<th>Profits made by investors in float $m</th>
<th>Percentage profit by investors</th>
<th>Total Market Capital $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Battery Group +</td>
<td>74.3</td>
<td>1840.5</td>
<td>285.0</td>
</tr>
<tr>
<td>* Aust Asset Management +</td>
<td>45.3</td>
<td>320.7</td>
<td>293.0</td>
</tr>
<tr>
<td>* Strand Holdings</td>
<td>21.5</td>
<td>133.8</td>
<td>37.8</td>
</tr>
<tr>
<td>* Capvest</td>
<td>19.2</td>
<td>320.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Qlone</td>
<td>18.9</td>
<td>420.0</td>
<td>41.0</td>
</tr>
<tr>
<td>* Eurolynx +</td>
<td>18.8</td>
<td>400.0</td>
<td>70.2</td>
</tr>
<tr>
<td>* BGL International +</td>
<td>18.5</td>
<td>93.0</td>
<td>40.1</td>
</tr>
<tr>
<td>* Strategic Capital Corp</td>
<td>17.9</td>
<td>827.0</td>
<td>29.0</td>
</tr>
<tr>
<td>TTL Corporation</td>
<td>17.4</td>
<td>832.3</td>
<td>111.5</td>
</tr>
<tr>
<td>* Equity Finance</td>
<td>14.6</td>
<td>955.8</td>
<td>48.6</td>
</tr>
<tr>
<td>* Corporate Development</td>
<td>14.2</td>
<td>710.0</td>
<td>83.4</td>
</tr>
<tr>
<td>* Panfida +</td>
<td>12.8</td>
<td>90.0</td>
<td>86.6</td>
</tr>
<tr>
<td>Exicom</td>
<td>12.0</td>
<td>300.0</td>
<td>36.6</td>
</tr>
<tr>
<td>* Overseas Corp Funds +</td>
<td>10.7</td>
<td>63.6</td>
<td>31.2</td>
</tr>
<tr>
<td>* Fleet Capital</td>
<td>9.8</td>
<td>882.2</td>
<td>11.5</td>
</tr>
<tr>
<td>Kelpie Industries</td>
<td>9.5</td>
<td>260.0</td>
<td>33.6</td>
</tr>
<tr>
<td>* CGS Holdings</td>
<td>9.4</td>
<td>700.0</td>
<td>20.0</td>
</tr>
<tr>
<td>* Brunkhorst Investments +</td>
<td>8.3</td>
<td>103.4</td>
<td>20.4</td>
</tr>
<tr>
<td>* BT Global Assets +</td>
<td>8.1</td>
<td>4101</td>
<td>28.0</td>
</tr>
<tr>
<td>Graeton Corporation</td>
<td>8.0</td>
<td>160.0</td>
<td>31.4</td>
</tr>
<tr>
<td>* Equity &amp; Property</td>
<td>7.9</td>
<td>66.2</td>
<td>27.6</td>
</tr>
<tr>
<td>* Pacific Coast Leisure</td>
<td>7.7</td>
<td>723.0</td>
<td>14.2</td>
</tr>
<tr>
<td>Circadian Technologies</td>
<td>7.2</td>
<td>690.4</td>
<td>11.4</td>
</tr>
<tr>
<td>SA Regional</td>
<td>7.2</td>
<td>473.0</td>
<td>28.7</td>
</tr>
<tr>
<td>* Provender Holdings</td>
<td>6.8</td>
<td>170.0</td>
<td>10.8</td>
</tr>
</tbody>
</table>

* Started life as a second board "cashbox".

+ company since graduated to the main board.

Source: Australian Second Board Consultants Pty Ltd. All figures to June 30, 1987.
4.5 FROM BULL TO BEAR MARKET

While the ACTU and politicians called for a national inquiry into why speculative investment had become more attractive than investment in productive activities, ASBC’s September '87 review illustrated the Second Boards' ongoing investment viability.

Although Perth was still leading in the number of listed companies (almost 100, 30 + per cent of 300 national listings ), Melbourne was outpacing all other Stock Exchanges' Second Boards in terms of market capitalisation; it reached $1.17 billion during July '87. In twelve months, National Second Board Market capitalisation had quadrupled to $4.49 billion while stock turnover had increase by 675 per cent to $1 billion annually.

Since 1984, thirty six of the 300 + Second Board listed companies had moved to the Main Board; of these, fourteen recorded an increase in share price (seven of more than 10 per cent) while twenty-one saw a fall, wiping out investors equity of more than $206 million.

In terms of total market capitalisation (July ‘87), the various sectors' proportion of capitalisation was as follows:

(1) finance and investment                  22.5%
(2) property and construction              12.9%
(3) business acquirers                     10.8%
(4) financial services                     10.3%
(5) manufacturing and engineering          7.9%
(6) Hi-Tech (communications, electronics, biotechnology, computers, etc.) 6.5%
(7) Other: retail, tourism and leisure, media & film 29.6%

**Total**                                      100%
The morning after the stockmarket crash on 20 October 1987, market analysts said: “...the Second Board will survive the initial collapse of the international bourse but will suffer with other listed companies as world markets readjust to new trading conditions.” (Frith 1987k, AFR)

The reason for their initial optimism was that during the "bull" run from March to October '87, big investors had concentrated on blue chip Main Board companies, and as a result many Second Board stocks were undervalued.

On the other hand, given the flight of investors to quality stocks, the developmental nature of a lot of Second Board companies would go against them. Although many Second Board companies could boast a loyal shareholder base, less likely to dump shares in hard times, a rationalisation would also be imminent.

In the two days of trading after the stock market crash, the National Second Board Index plummeted 600 points or 18.6 per cent from 3233.3 to 2633.3. This compared with a fall of 28 per cent in the All Ordinaries Index and a drop of 27.4 per cent in the All Industrials Index.

"Cashboxes", which are essentially investment companies and very much a phenomenon of a "bull" market, found themselves in the least enviable position; out in the cold, completely lacking investor support and unable to raise further funds. Ironically one such "cashbox" offered itself for sale as "suitable for established business needing quick listing" - the backdoor listing practice the ASX tried to prevent when it banned "cashbox" listings from Melbourne and Sydney Second Boards (Armitage 1987e, SMH)

By mid-November 1987, the Australian Second Board Index had fallen by 33 per cent with a corresponding drop in Second Board activity.
Melbourne turnover was:
On 19th October: 1.58 M shares, worth $1.67 M
On 21st October: 0.756 M shares, worth $0.85 M

National turnover was:
On 19th October: 5.75 M shares, worth $3.83 M
On 21st October: 3.37 M shares, worth $2.76 M

By mid December 1987, activity on the Second Board had shrunk to less than one third of its previous level, and investor confidence had been devastated by the market's inability to deliver sellers a fair and reasonable market for their shares. (Frith 1987n, AFR)

Take-over activity had increased as part of the rationalisation process and the search for equity capital had induced small industrial companies to turn to MIC’s (Management and Investment Companies).

By the end of 1987, a return to investment and economic fundamentals had been forced on all investors, from the individual to the venture capital companies (that is: look for strong cash flow, growth potential, quality management and a sound business plan).

By April '88, market capitalisation of the Second Boards was about halved from a peak $5.4 million to $2.8 million.

By the end of November '88 the Australian Second Board Index stood at 1217 points, a 69 per cent fall since the '87 crash, compared with a 30.4 per cent for the All Ordinaries Index.

1989 and 1990 saw a continuation of the disastrous after-effects of the stockmarket crash on Second Board companies and stocks; many companies were suspended by the ASX for failing to submit profit statements, annual reports and other reporting requirements, while stock trading dropped to a trickle:
March '87 Quarter turnover: $429.3 M
March '90 Quarter turnover: $10.0 M (Main Board: $12,654 M)
March '87 Quarter turnover: 441.5 million shares
March '90 Quarter turnover: 48.6 million shares (Main Board: 5,849 million)

As one commentator wrote: "The Second Board, it must be said, has the smell of death about it." (Bromby 1990, The Australian)

Due to the Second Boards' failure to recover during 1988 and 1989, Second Board specialists, ASBC, were among the first to raise the issues of the role and future of the Second Boards. They encouraged debate on such controversial reforms as:

(i) Second Board's role: to provide capital to existing businesses which want to expand, rather than to fund entrepreneurs or the development of new technology;
(ii) raising the level of corporate behaviour and disclosure;
(iii) nationalising the Second Boards, in line with the Main Boards;
(iv) transferring all Second Boards to the SEATS (computer trading) system;
(v) abolishing the junior market.

4.6 LEGISLATIVE CHANGES
Six years after its birth in Perth, in June '84, the Second Board almost found its final resting place also in Perth, after the Western Australian Corporate Affairs Department recommended the abolition of the ASX's Second Board market and a ban on the listing of "cashbox" companies to improve investor confidence and stamp out illegal practices. The report, commissioned by the W.A. Government, also recommended that venture capital should not be raised through the Main and Second Boards, but through a structured and viable venture capital market. The Corporate Affairs Report commented that many participants had used the stockmarket as a means of profiting through the abuse of capital-raising processes and market practices, bringing into question the credibility of the Australian equities market; to curb potential abuse of the system, companies with no track record should not be allowed to raise seed capital from the public.
However, in November 1990, the W.A. Government bowed to pressure from the Australian Stock Exchange not to proceed prematurely with the shut-down of the Second Board and instead introduced strict new rules for both the market and its capital raising processes. (Terry 1990, The Australian)

Meanwhile, based on recommendations by the Senate Standing Committee on Constitutional and Legal Affairs in 1987 and following a 1990 High Court decision confirming that the Commonwealth does not have the constitutional authority to legislate in respect of securities and the incorporation of companies, formal agreements between the Commonwealth and the States/Northern Territory provided the Commonwealth with the power to implement most policies concerning a national scheme of company regulations.

Various state legislation affecting companies and securities has now been replaced by the Corporations Act, the Australian Securities Commission Act and laws associated with it, and the National Companies and Securities Commission (NCSC) has been replaced by the Australian Securities Commission (ASC).

The ASC, Australia's new corporate regulator, replaced the Corporate Affairs Commissions of each state and territory (except W.A.) and began operations on 1 January 1991. The new system operates on a national basis and companies registered in any state or territory (excluding W.A.) are automatically registered as Australian companies.

The objectives of the ASC are detailed in Section 3(2) of the Australian Securities Commission Act 1989 and include:

(a) to maintain, facilitate and improve the performance of companies, and of the securities markets and futures markets, in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy;
(b) to maintain the confidence of investors in the securities and futures markets by ensuring adequate protection of those investors.
Since October 1987, the Australian Stock Exchange also managed two order-driven market systems for equities:

i. trading floors, where the best buy and sell quotes derived from orders are displayed on boards and changed by floor traders' open outcry (eg Second Board Stocks) and

ii. a computerised order display and execution system, known as SEATS (Stock Exchange Automated Trading System) where matching orders automatically result in a trade (in order of placement).

By late 1990, the ASX was anxious to introduce SEATS and CHESS (Clearing House Electronic Subregister System) nationally across all trading floors.

Under the proposals, the ASX would gradually abolish the Second Board by moving those companies which could comply with official listing rules to the Main Board, and allowing those companies which could not, a grace period of two to three years to comply with the main Board's listing rules. Upon meeting the requirements, they would also be transferred to the official list. (Those which could not would probably be delisted after the period of grace.)

As all stocks would be traded through the one Stock Exchange Automated Trading System (SEATS), the lack of differentiation between the various markets (eg main board, second board, mining board, industrials board) would make it easier for Second Board companies to graduate to the official list.

At least Second Board companies would be offered the opportunity to remain a part of the public domain and become "SEATS traded stocks" rather than "Second Board Stocks", which could enhance the marketability of these shares.

During 1991, the issue of what to do about the Second Board received considerable attention. Of particular concern was the loss of about $350 million in investments by thousands of mainly small investors in Second Board companies who would not make it across to the Main Board. (Teh 1991, The Age)
After delisting, these funds would be controlled by directors of small private companies with shareholders having little influence over the use of these funds and few avenues of divesting their shareholdings.

By end-1991, the ASX decided to close the Second Board on 1 January 1992. Companies listed on the Second Board would be given the opportunity to list on the Main Board and five years to meet its requirements.

While critics maintain that the Second Board was ill-conceived, responding too much to market pressure during "boom" conditions and never promoted as a high-risk investment (which it was), it also met an urgent need by small new companies to raise relatively cheap equity capita; and that - original - goal remains valid.

1985 - 1991 Summary of ASX Operations
Exhibit 4.2 provides a summary of key market and financial indicators pertaining to the primary and secondary capital equity markets, the Main Boards and the Second Board.

Financial Notes to Summary
Financial data pertaining to the second Board as at 30 June has been estimated (based on available data at other dates) on various occasions, due to a lack of reporting by the ASX.

Market Capitalisation is the market value of all issued shares (by all listed companies) at that date and at its peak, Second Board companies' capitalisation exceeded $5 billion in September 1987.

The All Ordinaries Index hit an all time high in September 1987 at 2,306 and a low in November 1987 at 1,151.

During 1987, before the October crash, the Second Board Price Index outperformed the All Ordinaries and All Industrials Indices.
In dollar-terms the demand for new equity funds during the "boom" year 1986 was about $18 billion; the Main Board provided $16,081 million, while the Second Board raised about $1,750 million or about 10 per cent of the total. The Second Board's market share in stock turnover was 1.7 per cent (stock value) and 4.6 per cent (stock volume); by 1988 its stock turnover market share had dropped to 0.3 per cent (value) and 1.9 per cent (volume) and by 1989 to 0.1 per cent (value) and 0.9 per cent (volume).

In 1989, the Main Board raised just over $9 billion in equity funds; Second Board raisings were negligible.

In 1990, Second Board trading continued to be negligible and the decision was made to close it in 1992.

Main Board listings steadily increased from an all time low of 993 (1983; Ref. Table 4.1) to 1510 in 1988. Following the stock market crash, listings again decreased to 1446 (1989), 1318 (1990) and 1151 (1991).
### EXHIBIT 4.2
**ASX Operations - Summary 1985-1991**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRIMARY MARKET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Raisings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Main Board $M</td>
<td>6,596</td>
<td>9,147</td>
<td>10,952</td>
<td>13,395</td>
<td>16,081</td>
<td>6,956</td>
<td>3,583</td>
</tr>
<tr>
<td>- Second Board $M</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>800</td>
<td>1,750</td>
<td>221</td>
<td>32</td>
</tr>
<tr>
<td>Debentures $M</td>
<td>N.A.</td>
<td>N.A.</td>
<td>1,059</td>
<td>1,196</td>
<td>1,276</td>
<td>159</td>
<td>550</td>
</tr>
<tr>
<td><strong>SECONDARY MARKET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Capitalisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Main Board $M</td>
<td>228,066</td>
<td>218,562</td>
<td>208,957</td>
<td>212,017</td>
<td>225,197</td>
<td>129,885</td>
<td>83,882</td>
</tr>
<tr>
<td>- Second Board $M</td>
<td>est. 650</td>
<td>est. 1,000</td>
<td>est. 2,500</td>
<td>3,988</td>
<td>884</td>
<td>358</td>
<td></td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Value ($M)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Total Equity (Main + Second Boards)</td>
<td>54,540</td>
<td>56,784</td>
<td>49,499</td>
<td>68,195</td>
<td>60,498</td>
<td>31,411</td>
<td>15,386</td>
</tr>
<tr>
<td>- Second Board only</td>
<td>33</td>
<td>56</td>
<td>167</td>
<td>558</td>
<td>est. 1,000</td>
<td>est. 148</td>
<td>N.A.</td>
</tr>
<tr>
<td>(b) Volume (million shares)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Total Equity (M + S)</td>
<td>23,597</td>
<td>57,334</td>
<td>26,629</td>
<td>37,598</td>
<td>36,724</td>
<td>18,236</td>
<td>11,570</td>
</tr>
<tr>
<td>- Second Board only</td>
<td>N.A.</td>
<td>245</td>
<td>511</td>
<td>975</td>
<td>est. 1,700</td>
<td>est. 300</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>ASX Share Price Indices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- All Ordinaries (6/85)</td>
<td>1,506</td>
<td>1,500</td>
<td>1,521</td>
<td>1,555</td>
<td>1,764</td>
<td>1,180</td>
<td>861</td>
</tr>
<tr>
<td>- All Industrials (6/85)</td>
<td>2,316</td>
<td>2,367</td>
<td>2,477</td>
<td>2,485</td>
<td>2,605</td>
<td>1,891</td>
<td>1,240</td>
</tr>
<tr>
<td>- Second Board (3185)</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>est. 1,217</td>
<td>3,988</td>
<td>2,350</td>
<td>est. 1,800</td>
</tr>
<tr>
<td><strong>Number of Companies Listed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Main Board</td>
<td>1,151</td>
<td>1,318</td>
<td>1,446</td>
<td>1,510</td>
<td>1,386</td>
<td>1,141</td>
<td>1,056</td>
</tr>
<tr>
<td>- Second Board</td>
<td>224</td>
<td>292</td>
<td>338</td>
<td>350</td>
<td>258</td>
<td>120</td>
<td>est. 75</td>
</tr>
</tbody>
</table>

**Source:** Australian Stock Exchange - Annual Reports 198511991 and Australian Second Board consultants' Reviews.

N.A. = Not Available
4.7 CONCLUSIONS

Specialists in the Second Board, such as the Australian Second Board Consultants group, and others reported their assessment of the factors which contributed to the October ‘87 disaster and some of the basic flaws and areas of concern identified about the Second Board, as follows (Hoare 1988a, 1988b, 1988c, 1988d, AFR):

- the junior market never won the full support of the financial community, even during the "bull" phase;

- the Second Board has been plagued by the image of a speculative market; a number of "blue-sky" companies made a few people very rich at the cost of the investing public;

- it was used by companies without a track record, cashflow, future plans or even financial, marketing and product development expertise to seek venture or seed finance/capital (ie many did not understand the demands of going public and the need for shareholder information etc.);

- promoters and speculators abused this market by taking advantage of small, inexperienced companies; also smaller investors were more interested in short-term speculative gain than long-term investment; they did not research and understand their investment company's activities;

- most of the Second Board companies were under-capitalised to handle the costs of development; when it is difficult to raise needed funds, existing investors are likely to lose money;

- insufficient screening of new entrants by the broking community and ASX.
The following recommendations were made by the Australian Second Board Consultants and others (Hoare 1988c, AFR; Chanticleer 1988, AFR; Armitage 1988e, SMH):

(i) Use the traditional venture capital market for seed capital; it can impose the necessary discipline on companies with "good ideas" and it is prepared for the investment of time and money to develop them.

(ii) Use the Second Board to raise growth or further development capital. Prior to listing, a private company should have a track record, cash flow, profits, good management, a product or more than a good idea.

(iii) Use the experience of Second Board listing as a springboard to the Main Board; Main Board listing should be the ultimate objective.

(iv) Second Board may rather be seen as the exit vehicle for venture capital than as the entry vehicle for investment capital.

With reference to recommendation (i), the traditional venture capital market included not only banks, but also MIC’s. This Government initiative was also discontinued in 1991, but replaced with Pooled Development Funds (PDF’s) in 1992. Further details are contained in Appendix 3.

However, appropriate regulatory changes required by these recommendation were not adopted by the ASX and the Second Board was closed in 1992.

So, what happened to some 474 companies that listed on the Second Boards?

Data compiled by the Second Board Service of "Personal Investment" magazine in June 1991 (no later figures are available) show the following:

<table>
<thead>
<tr>
<th>June 1991</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Board Delistings</td>
<td>157</td>
<td>33</td>
</tr>
<tr>
<td>Transfers to Main Board</td>
<td>93</td>
<td>20</td>
</tr>
<tr>
<td>(including 11 delistings)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Board Listings on 30</td>
<td>224</td>
<td>47</td>
</tr>
<tr>
<td>March 91 (including 51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>suspensions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Second Board Listings</strong></td>
<td>474</td>
<td>100</td>
</tr>
</tbody>
</table>
The ASX Annual Report 1992 announced that, of the 187 Second Board listings on 1 January '92, 123 were transferred to the Main Board on that date, followed by another 17 companies by 30 June 1992: 47 were delisted as they could not comply with listing rules.

The Melbourne Stock Exchange attracted some ninety Second Board listings and twenty-seven of these companies were still listed on the Main Board on 1 January 1996. With reference to Appendix 4, which lists all ninety companies, Table 4.4 lists the number of companies by the year of listing on Melbourne SX’ Second Board, and Table 4.5 summarises the total period of listing prior to delisting.

TABLE 4.4: Number of Companies with the Melbourne SX as Home Exchange, by the Year of Listing on the Second Board.

<table>
<thead>
<tr>
<th>YEAR OF LISTING</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>14</td>
</tr>
<tr>
<td>1986</td>
<td>26</td>
</tr>
<tr>
<td>1987</td>
<td>43</td>
</tr>
<tr>
<td>1988</td>
<td>7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>90</td>
</tr>
</tbody>
</table>

TABLE 4.5: Number of Delisted Companies by the Total Period of Listing on the Melbourne SX Second and Main Boards.

<table>
<thead>
<tr>
<th>LISTING PERIOD</th>
<th>SECOND BOARD</th>
<th>SECOND AND MAIN BOARDS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1 year</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>&lt;2 years</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>&lt;3 years</td>
<td>10</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>&lt;4 years</td>
<td>7</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>&lt;5 years</td>
<td>11</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>&lt;6 years</td>
<td>6</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>&lt;7 years</td>
<td>1</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7 and more years</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>37</td>
<td>26</td>
<td>63</td>
</tr>
</tbody>
</table>
In order to conduct a survey among ex-Second Board companies, every effort was made to contact delisted companies, but that was not possible. Accordingly, only accessible companies, those twenty seven listed on the Main Board on 1 January 1996, were asked to participate in a survey to determine the usefulness (or otherwise) of the Second Board Stock Market.

With reference to Appendix 4 and Appendix 5, which provides details on individual companies, Table 4.6 shows for how long the companies (which were asked to participate in the survey) were listed on the Second and Main Boards.

**TABLE 4.6: Number of Companies, listed on the ASX on 1 January' 96, by the Total Period of Listing on Second and Main Boards.**

<table>
<thead>
<tr>
<th>LISTING PERIOD</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-8 years</td>
<td>2</td>
</tr>
<tr>
<td>8-9 years</td>
<td>14</td>
</tr>
<tr>
<td>9-10 years</td>
<td>6</td>
</tr>
<tr>
<td>&gt; 10 years</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>27</strong></td>
</tr>
</tbody>
</table>

Appendix 6 contains the letter of introduction to the survey and the questionnaire.

The next chapter, Chapter 5, reports the results of this survey.
CHAPTER 5
SURVEY RESULTS

This chapter contains the results obtained from the survey of the Second Board Companies. The questionnaire was distributed to twenty seven companies and fourteen responses were received over a period of six weeks. Of the fourteen responses, nine included the completed questionnaire, while one company had gone into liquidation and four others were either too small or had no original staff left to answer the questions accurately.

The following results are based on the answers provided by nine companies which were listed on the ASX as at 1 January 1996.

5.1 BUSINESS PROFILES

The first four questions requested information about the business at the time of listing on the Second Board Stock Market: period of establishment, nature of the business (industry category), type of innovation (if any) and the business' competitive advantage.

Tables 5.1 to 5.4 summarise the results.

TABLE 5.1: Number of Companies by Period of Establishment.

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 2 years</td>
<td>4</td>
</tr>
<tr>
<td>3 - 4 years</td>
<td>1</td>
</tr>
<tr>
<td>over 5 years</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>9</td>
</tr>
</tbody>
</table>
TABLE 5.2: Number of Companies by Industry Category.

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>4</td>
</tr>
<tr>
<td>Communication Service</td>
<td>1</td>
</tr>
<tr>
<td>Finance, Insurance, Property</td>
<td>2</td>
</tr>
<tr>
<td>Other: Pharmaceutical Research</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>

TABLE 5.3: Number of Companies by Type of Innovation.

<table>
<thead>
<tr>
<th>TYPE OF INNOVATION</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>New discovery</td>
<td>2</td>
</tr>
<tr>
<td>New technology</td>
<td>2</td>
</tr>
<tr>
<td>New design</td>
<td>3</td>
</tr>
<tr>
<td>Nil</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>

Companies were asked to indicate up to three factors contributing to their competitive advantage and a total of twenty factors were indicated as summarised in Table 5.4.
TABLE 5.4: Factors of Competitive Advantage of Nine Companies.

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost/Price Advantage</td>
<td>2</td>
</tr>
<tr>
<td>Technology</td>
<td>4</td>
</tr>
<tr>
<td>Unique Product</td>
<td>4</td>
</tr>
<tr>
<td>Product Design</td>
<td>2</td>
</tr>
<tr>
<td>Production Capability</td>
<td>2</td>
</tr>
<tr>
<td>Quality</td>
<td>3</td>
</tr>
<tr>
<td>Access to Suppliers</td>
<td>0</td>
</tr>
<tr>
<td>Proximity to Customers</td>
<td>0</td>
</tr>
<tr>
<td>Marketing</td>
<td>2</td>
</tr>
<tr>
<td>After-SalesService</td>
<td>0</td>
</tr>
<tr>
<td>Delivery Times</td>
<td>0</td>
</tr>
<tr>
<td>Other: Special Knowledge</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20</td>
</tr>
</tbody>
</table>

Data contained in Tables 5.1 - 5.4 speak for themselves, however, cross referencing data supplied by individual companies allows the following observations:

I. The two companies which listed "Pharmaceutical Research" as their industry category both listed their period of establishment as less than two years, and their type of innovation as "new discoveries" - true new ventures. Not surprisingly, they also listed "technology" as a key factor in their competitive advantage.

II. All four companies which listed "manufacturing" as their industry category were established for more than five years. Two listed "new design" and one "new technology" as their type of innovation (Table 5.3). Cost/Price advantage, unique product and quality were the most frequent competitive advantage factors mentioned by these manufacturers.
5.2 REASONS FOR SECOND BOARD LISTING

To understand the reasons for listing on the Second Board Stock Market, companies were asked to evaluate the listing procedures versus the traditional borrowing process (Question Five), the stage of development for which the capital was raised (Question Six) and how the funds were apportioned (Question Seven). Tables 5.5 to 5.7 summarise the results.

Table 5.5: Number of Companies by their Evaluation of a Number of Factors when Listing on the Second Board Stock Market compared to a Traditional Borrowing Process (eg Banks).

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>Less (than)</th>
<th>About the same</th>
<th>More (than)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Complexity (Legal advice, Info. Required, etc)</td>
<td>2</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>(b) Amount of Capital Funds obtained</td>
<td>2</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>(c) Cost (incl. time of key personnel)</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>(d) Total time period involved (to access funds)</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>(e) Availability of future funds</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>(f) Restrictions placed on owners/managers of business</td>
<td>5</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

These results indicate that the majority of companies considered the listing procedures to be more complex, more expensive and more time consuming than borrowing procedures; the remainder considered these factors to be about the same as those for borrowing. However, the amount of funds obtained and available in the future exceeded those from a traditional lender in the opinion of most of the companies surveyed. Although the majority of the companies indicated that the listing placed less restrictions on owners/managers, three companies experienced increased restrictions compared to those imposed by a traditional lender. No "Do Not Know" answers were received.
Because the Second Board Stock Market was established in particular for new, innovative enterprises, in early stages of development, Question six asked companies in which one of five defined development stages they were at the time of listing. Table 5.6 summarises the results.

**Table 5.6.: Number of Companies by Stage of Development.**

<table>
<thead>
<tr>
<th>STAGE OF DEVELOPMENT</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Research + Development</td>
<td>1</td>
</tr>
<tr>
<td>2. Commercialisation I:</td>
<td>2</td>
</tr>
<tr>
<td>Completion of proto-type, marketing studies, management team ready to do business,</td>
<td></td>
</tr>
<tr>
<td>3. Commercialisation II:</td>
<td>0</td>
</tr>
<tr>
<td>Commencement of full scale manufacturing, increase in sales/inventory; no profit yet.</td>
<td></td>
</tr>
<tr>
<td>4. Commercialisation III:</td>
<td>4</td>
</tr>
<tr>
<td>Profitable operations, increasing sales, need for expansion.</td>
<td></td>
</tr>
<tr>
<td>5. Maturity:</td>
<td>1</td>
</tr>
<tr>
<td>May consider Main Board Stock Market listing, major expansion, acquisition, merger or take-over.</td>
<td></td>
</tr>
</tbody>
</table>

Although the respondents were asked to nominate only one development stage, two ticked both "Research + Development" and "Commercialisation I".

Because these results seemed consistent with data contained in Table 5.1 (four companies less than two years old and therefore in development stages one and two and five older than three years and therefore in development stages four and five), they were cross referenced and only two anomalies were found: one company, less than two years old was in development stage four (Commercialisation III) while one company, older
than five years, required funds for stages one and two (Research + Development and Commercialisation I).

In addition, to understand their need for capital funds, Question seven addressed the issue of how funds were allocated. Table 5.7 contains the results.

Table 5.7: The Apportionment of Capital Funds Raised on the Second Board Stock Market.

<table>
<thead>
<tr>
<th>ALLOCATION</th>
<th>PER CENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research + Development</td>
<td>40</td>
</tr>
<tr>
<td>Debt Retirement</td>
<td>1</td>
</tr>
<tr>
<td>Increased Inventory Holdings</td>
<td>11</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>9</td>
</tr>
<tr>
<td>Marketing</td>
<td>8</td>
</tr>
<tr>
<td>Acquisition</td>
<td>7</td>
</tr>
<tr>
<td>Other: Buy Out Existing Shareholders</td>
<td>24</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The above result is based on eight companies' responses because one failed to provide details.

As three of the nine companies reported to be in development stage one, Research + Development, it was expected that some 40 per cent of funds raised was allocated for that purpose.

The low allocation to debt retirement would indicate low gearing by these companies particularly because 24 per cent of funds were used to buy out existing shareholders, an indication that equity funds were already the preferred method of financing prior to listing on the Second Board Stock Market.
5.3 MANAGEMENT STRENGTHS AND WEAKNESSES

A range of business success/failure factors, particularly applicable during the early phases of establishment, was identified, and the companies were asked how they rated these factors at the time of listing (Question 8). Table 5.8 contains the results.

Table 5.8: Number of Companies by their Rating of a Range of Business Success/Failure Factors.

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>Very Strong</th>
<th>Strong</th>
<th>Satisfactory</th>
<th>Weak</th>
<th>Very Weak</th>
<th>Do Not Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Technical know-how</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>(b) Financial management (e.g. Financial analysis, debt management)</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>(c) Access to distribution networks</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>(d) Access to capital funds</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(e) Proven strategic planning and measurement abilities</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(f) Marketing and sales management skills</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>(g) Access to markets (incl. Governments)</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(h) Other:</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

All nine companies claimed to have had satisfactory to very strong technical know-how and financial management skills at the time of listing.

Access to distribution networks was also satisfactory to very strong in seven companies, in one company this factor was weak, while another did not know.
Access to capital was satisfactory for five companies, strong for one and weak for only three companies at the time of listing. This result raised the question as to whether the companies which experienced difficulties with raising capital funds were very young and/or in the first stage of development, therefore lacking history and lenders' confidence. This hypothesis proved correct for only one company; the other two companies were older than five years, in manufacturing and in development stages four and five respectively.

On the other hand, the only company with strong access to funds was less than two years old and in development stage one (Research + Development).

Planning and evaluation abilities were satisfactory in seven companies, weak in one and very weak in another. The last two companies were found to be also very young (less than two years old), highly innovative (pharmaceutical research) and in development stage one.

Marketing and sales management skills were satisfactory to very strong in five companies, weak in three and very weak in one. Of the last four companies, three were found to be in development stage one (Research + Development), a possible explanation for not having addressed this important management factor yet.

Access to markets was satisfactory to strong in all companies except one, where it was very weak. This company, not surprisingly, also reported to be weak in marketing and sales management.

In addition, analysis of individual answers to Question eight showed that eight of the nine companies rated the seven essential business management factors, on average, as satisfactory and only one rated them as weak, at the time of listing. That satisfactory to strong performance in most of the key factors would have played a critical role in the companies' success and subsequent Main Board listing is more than likely, but lack of comparative information regarding failed and delisted companies prevents a definitive conclusion.
5.4. EFFECTS OF CLOSURE SECOND BOARD

On 1 January 1992 the Second Board Stock Market was closed and companies were asked what effect this had on their businesses (Question nine). While one company "felt pressured to comply with Main Board listing rules, eight companies answered "nil". Two of these companies made the "compulsory" transfer to the Main Board without any problems and the other six companies had already transferred prior to the closure of the Second Board, a further indication of the strong performance of these companies.

Question ten asked for the three main factors which contributed to the business' success while listed on the Second Board.

The responses to this open-ended question confirmed the findings of Question four pertaining to competitive advantage factors, but also provided some insight into leadership characteristics. The responses were summarised as follows:

- Two companies did not succeed in their original intention and changed direction completely.
- Six companies listed their product as a key success factor, eg quality, cost effectiveness, technical know-how.
- Four companies mentioned sound financial management (re.: debt, growth, controls).
- In terms of marketing strategies, those specifically mentioned were:
  - identification of a strategic niche
  - customer services
  - established brand name
  - superior marketing and infrastructure.
- In terms of leadership, specific characteristics mentioned were:
  - persistence
  - Directors' industry experience
  - good human relations within the company
  - identification of opportunities
  - thorough feasibility studies
– flexibility.

5.5 GOVERNMENT INITIATIVES

To understand what policies could enhance the successful operation of (new) businesses, companies were asked to rate the importance of a range of potential Government initiatives (Question eleven). Table 5.9. contains the results.

Table 5.9: Number of Companies by their Rating of Ten Potential Government Initiatives.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Direct Gov. Involvement (through equity/debt funding) in R+D and commercialisation.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>2 Stimulation through incentives (eg. tax, grants) of R+D+C</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>3 Provision of access to funds through regulation of Banks, Fin. Institutions.</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>4 Provision of access to funds through Australian Stock Exchange, under special listing + control regulations.</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>5 Provision of access to funds through Networking: matching private investors with new businesses.</td>
<td>0</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>6 Comprehensive Research into needs of new/small/medium businesses, in order to develop appropriate support schemes.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>7 Improved and expanded training facilities.</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>8 Access to better business information.</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>9 Reduction in costs of Gov. Licences, regulations, fees + charges.</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>10 Enhanced role by Gov. Authorities in the delivery of support programs (eg. SBCD, NIES).</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>
The list of potential Government initiatives was compiled following a thorough literature search to reflect existing opinion regarding (new) business needs. (Refer to Chapter 3) For this reason a high level of unity in companies' responses was expected, but the above results indicate otherwise.

On average, initiatives such as "access to better business information" (no. 8), "improved and expanded training facilities" (no. 7) and "enhanced role by Government Authorities in the delivery of support programs" (no. 10), in order of lessening importance, were rated as less than important: an interesting finding given the Government's efforts to enhance business education/training and support programs.

On the other hand, initiatives such as "provision of access to funds through the Australian Stock Exchange, under special listing and control regulations" (no. 4), "reduction in costs of Government licences, regulations, fees and charges" (no. 9) and "stimulation through incentives (eg tax, grants) of research and development, and commercialisation" (no. 2) (listed in order of increasing importance) rated on average as more than important.

According to this result, companies seek, in particular, financial support through reduced Government charges and increased incentives.

All other proposed initiatives, ie "provision of access to funds through networking, matching private investors with new businesses" (no. 5), "comprehensive research into needs of businesses" (no. 6), "direct Government involvement in research and development, and commercialisation" (no. 1) and "provision of access to funds through regulation of banks and other financial institutions" (no. 3) (listed in order of increasing importance) rated moderately important (on average) indicating a lack of consensus among companies regarding the need for these initiatives.
Finally, Question twelve sought an evaluation of the "Second Board Experience" and asked companies if they would do it again. Two companies did not know, but all others (seven) answered "yes", indicating that the benefits - access to capital - outweighed any disadvantages, such as complexity and costs.

Only two companies responded to the invitation to provide additional comments. Both were long established manufacturing companies which could not have expanded without the public listing.

In summary, although few in number, the quality of the responses received was excellent; conclusions are presented in Chapter 8, Analysis and Conclusion.
CHAPTER 6
PUBLIC CAPITAL MARKETS IN USA AND UK.

6.1 USA
The American Stock Market, regulated by the Securities and Exchange Commission (SEC), is dominated by the two largest stock exchanges, the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), a range of regional stock exchanges and the National Association of Security Dealers Automated Quotation System (NASDAQ).

If the nation's stock exchanges constitute the first market, the second market is the Over-The-Counter (OTC) market - monopolised by NASDAQ - and there is one central difference that defines it.

The first market is an auction market; its prices are set by open negotiation between brokers acting as agents for buyers and sellers, and the forces of supply and demand predominate. The second market, in contrast, is a dealer market, which means the prices at which securities may be bought and sold are set by dealers. These dealers may negotiate - with other dealers or directly with customers - but there is no continuous auction in progress. Several different dealers may habitually make a market in the same stock; there is no one specialist with exclusive rights. You don't pay a commission when you buy an over-the-counter stock, but the price you pay includes a nice profit for the dealer. The OTC market is not really a market at all, in the sense that there is not a physical meeting place like an exchange; the OTC market occurs whenever anyone wants to do business in a particular stock. Yet since the vast majority of the country's stocks are not listed on any exchange, and thus must be traded "over the counter," this market is in another sense the giant of them all.

The Over-The-Counter market in unlisted securities is important to the capitalist system. This is one place where young, untried companies get the money they need if they are ever to be mature, proven companies; and a good many seasoned companies, which would be
Until the late 1960’s, the National Association of Security Dealers (NASD) operated the Over-The-Counter market in a very unorganised manner. Independent securities dealers were spread around the US and advertised their names, bids and offers in an NASD publication called "the pink sheet".

As the "pink sheet" listed yesterday's prices, current quotations could only be obtained by making a telephone call to the market maker. Few data were available on volume or price movements and investors had no idea if they had received a best price. Clearance and settlement in the OTC market were unorganised, admission of stocks to trading virtually unregulated, and there was no continuous market surveillance.

In response to SEC’s directions to reorganise and exploit technology, NASD revolutionised the OTC in 1971 by introducing a central computerised database giving the market high visibility, and linking member firms in a system which provided up-to-date price and trading information, the National Association of Security Dealers Quotation System (NASDAQ).

In terms of operations, the essential new difference was that bid and offer quotations could be logged onto computers by market-makers and instantly displayed on terminals to all member firms around the country.

In 1982, the SEC set up its National Market System (NMS), a computerised trading network linking the major American stock exchanges with broker-dealers throughout the country. As this included NASDAQ, it brought the seven floor-trading exchanges and the OTC market into direct contact. Since then, the growth of NASDAQ has been at the expense of the exchanges, as it has a number of advantages (Stonham 1987):

1. Companies can list more easily on NASDAQ as it has less stringent listing requirements;
2. They can also delist more easily;
3. NASDAQ is more liquid than the floor-trading exchanges

---

1 Average liquidity rates (defined as the number of dollars required to cause a 1% change in a stock's price) were higher (that is more orders) for NASDAQ stocks than for those on the NYSE between 1978 - 1981.
4. Its market-maker system, whereby dealers operate on their own account (as opposed to the auction-system of the exchanges) and it provides continuous trading;
5. Several NASDAQ market-makers trade in the same stocks, while the NYSE is a specialist trading system, a monopolistic (certain stocks) market-maker;
6. Increased competition of the NASDAQ system stimulates interest in smaller companies' stocks;
7. NASDAQ membership is cheaper;
8. NASDAQ has no more reporting or disclosure rules beyond those imposed by SEC, while NYSE and AMEX have their own additional regulations;
9. NASDAQ securities are more accessible to private investors as the average price of its stocks is lower, cost margins are smaller and the spreads of stocks is wide.

To counteract potential concerns about its relaxed regulatory framework, NASDAQ incorporates extensive automated surveillance systems, eg. to detect insider trading and monitor members' compliance with NASDAQ/NMS trade reporting rules.

In 1994 the SEC’s Division of Market Regulation published its "Market 2000 Report" (1994), the result of a two year review of the US equity markets to address concerns about possible market fragmentation, inadequate disclosure of market information and uneven regulation among competitors. The main findings were that today's equity markets are operating efficiently within the existing regulatory system and that a major revision of equity market regulation is not needed.

However, it recommended improvements to make the markets work better for investors and to make competition work better for the markets in four areas: fair treatment of investors, market information, fair competition and open market access (US SEC 1994).

The existing and evolving structure of the US equity markets is summarised as follows:
(a) Primary Markets.

These consist of New York Stock Exchange (NYSE), American Stock Exchange (AMEX) and a range of Regional Stock Exchanges; approximately 2900 stocks listed; NYSE accounts for 97 per cent of the market value of listed companies, AMEX for 2 per cent and Regional Exchanges for 1 per cent; the NYSE and AMEX provide the all important price discovery function and serve as the markets of last resort during times of market stress.

In terms of trading, its secondary market role, the NYSE accounted for 70% of total orders and 79 per cent of volume in NYSE listed stocks (1993); it is the world's No. 1. stock exchange (followed by NASDAQ).

A transaction fee applies on all national securities exchanges, based on a fixed percentage of the aggregate dollar value of executed trades.

(b) NASDAQ (also considered primary market).

This market consists of the Over-The-Counter (OTC) market of competing dealers, members of the national Association of Securities Dealers (NASD), which in 1971 introduced the National Association of Securities Dealers Automated Quotation System: NASDAQ.

Initially considered an "incubator" market, prior to listing on exchange markets, many companies which qualify for listing choose to remain on NASDAQ. Over 4,000 issues are quoted and over 3,000 companies have NASDAQ/NMS designation; its share volume represents 42 per cent (2nd largest after the NYSE) and dollar volume 29 per cent of total US equity markets (1992).

"Market Report 2000" (US SEC 1994) has recommended that transaction fees should also be imposed on transactions involving NASDAQ securities, to ensure costs of regulation and oversight by the SEC are equitably shared by competing markets.
NASDAQ is now linked with the exchanges through the interface between the Inter-Market Trading System (ITS) and NASDAQ's Computer Assisted Execution System (CAES). Through this linkage, NASDAQ market makers are linked to ITS for listed stocks that are not subject to off-board trading restrictions.

The NASDAQ has proposed to expand the linkage to all NYSE and AMEX stocks.

(c) Automated Trading Systems.

Several types of automated trading systems offer institutions and broker-dealers the opportunity to trade off the exchanges and NASDAQ. The first are Proprietary Trading Systems (PTS's), screen-based automated systems typically sponsored by broker-dealers.

PTS's are operated as independent businesses and permit trading in equities, government securities, corporate debt and options. Participation in these systems is limited to institutional investors, broker-dealers, specialists and other market professionals.

In 1993 trading in NASDAQ and exchange listed stocks represented 87 per cent and 13 per cent of PTS volume; however, the latter represented only 1.4 per cent of the volume in the NYSE stocks. The second type are internal crossing systems operated by several broker-dealers. The crossed orders for listed stocks are sent to an Exchange for execution and orders for NASDAQ stocks are submitted to the NASD for trade reporting.

(d) Third Market.

Over-The-Counter trading of exchange-listed securities is commonly known as "third market trading"; it is a hybrid market.
The past few years have seen third market trading increase, principally from operations established by a few third market makers to handle small customer order flow. The third market makers act much like NASDAQ market makers in that they accept orders of up to a few thousand shares in the most active listed stocks from retail firms or discount brokers.

Market orders are executed against the best bid or offer on the Intermarket Trading System (ITS) that links markets for listed securities.

For major institutional purchasers, the third market has long been a daily fact of life. Third market dealers are not members of the exchanges and therefore not bound by their rules; they often undercut the prices quoted by the New York Stock Exchange's specialists. The third market dealers can shave the asking price and still make good profits in handling the buy-and-sell transactions of such institutional investors as mutual funds, banks and insurance companies.

Third market activity is concentrated on the 400 most active NYSE stocks; in 1993 trading represented 7.4 per cent of reported NYSE volume.

(e) Fourth Market.

The fourth market refers to the trading of shares directly between institutional investors without the use of a broker-dealers. This type of trading differs from the trading done through Proprietary Trading Systems because PTS’s must either register as a broker-dealer or use one in order to process and guarantee the trades.

A few large institutions or money managers use the technique of internal crossing of orders between different accounts to avoid brokerage commissions. This method is used primarily for passively managed accounts that are cost-sensitive, but do not need immediate liquidity. Fourth market activity does not involve a significant volume, yet.
6.2 United Kingdom (UK)

The "Big Bang", or the deregulation of financial services, occurred in the United Kingdom in the autumn of 1986, when the London Stock Exchange abolished fixed and minimum dealing commissions and allowed new-style broker-dealers to trade on their own account as well as acting for clients.

Prior to this change, the British Stock Market System was based on "single capacity" which meant that brokers acted as agents in "on floor" dealings, while market-makers or "jobbers" were "off floor" traders on their own account.

The new system was "quote driven"; the Stock Exchange Automated Quotation System (SEAQ) displayed the prices of market-makers, accessible to all its members. (Stonham 1987)

Since the mid 70's and in parallel with the development of the OTC market in the USA (NASDAQ), a market in unlisted securities by a firm of licensed dealers had also developed. The basis of this market was that of matching transactions by which buyers could be put in touch with sellers and each charged a commission.

Subject to approval from the Stock Exchange, it allowed a limited degree of marketability for companies which did not otherwise meet the Stock Exchange's qualifications for a full listing. The growth of this unlisted market - unregulated - caused sufficient disquiet for the Stock Exchange to open the Unlisted Securities Market (USM) in 1980.

The USM in London was separate from the Stock Exchange-listed market in terms of operations, but not from its regulatory framework. It was intended to be a nursery for small companies prior to listing, a response to the ever growing Over-The-Counter (OTC) market and to respond to the growing volume of matched bargains in unlisted companies. (Buckland & Davis 1989)
The USM is a second-tier market of the London Stock Exchange, the main differences being (Stonham 1987):
- only 10 per cent of shares need to be put in public lands on the USM versus 25 per cent for full listing;
- there is less scrutinising;
- only three years trading is required, versus five years for listed shares;
- entry costs are lower;
- some reporting requirements are less stringent;
- smaller companies may seek entry.

While the UK’s USM regulated second-tier market was established largely in response to the success of the USA's OTC market (NASDAQ) and the threat posed by the unregulated British OTC (third) market, France modelled its "Deuxieme Marche", (Second Market) on the USM and was opened in June 1983.

Similarities can be found in that both responded to the need to attract new issues, as the supply of new entrants had dried-up by the late 1970’s and the liquidity of the market had diminished due to a decline in the number of individual sharebrokers in favour of the very large managed funds.

In France, as in the UK., the crucial feature of its Second Market has been to lower the regulatory barriers to entry and to reduce the costs associated with listing.

The most notable difference between Frances's Second Market and UK’s USM has been in their relationship to regional equity markets. While the U.K. emphasised the advantages of greater market centralisation, France developed the Second Market as a means to revitalise the regional exchanges themselves.(Stonham 1987; Buckland & Davis 1989)

**The Third Market (OTC)**

London also has a third-tier market, the Over-The-Counter (OTC) market, allowing companies mid-way in status between an unscrutinised private company and a rather more scrutinised USM company to raise money.
The London OTC market is much smaller than the USM, but it is better than the USM for very small companies at an early stage of development. OTC market-makers usually trade in unique stocks. However, prices can be volatile, trading may be slow and it must be considered a high-risk market.

Nevertheless, with increasing Stock Exchange control over trading in these small companies, there is a possibility that this market could develop strongly along the lines of NASDAQ and include international stocks (Stonham 1987). Small USM and Third Market companies may also benefit from the emergence of specialist, small company brokers from the ranks of venture capitalists.

Market-making for the small, regional based company in particular may have to depend on regional brokers willing to make a market in their shares on a matching basis. (Buckland & Davis 1989)

However, after the Stock Market collapse in October 1987, the fall of the USM exceeded that of the plunging F.T. All Share Index and the Third Market fared even worse, forfeiting all the gains of its first year of operation. In the short term, investment in USM firms, let alone Third Market (or OTC) companies, would be inhibited by investors' emphasis on "defensive" investment, with greater weight attached to good profit records, a strong balance sheet and sound management.

Stonham (1989) suggested: 'In the longer term however, it is likely that smaller companies, on the USM, with intrinsically greater flexibility than larger firms, should generate greater earnings per share than the average company quoted on the official list. Indeed, it is not unreasonable to suppose that, despite a greater short-term volatility in share price, over the longer term the smaller companies should out-perform larger ones, even in a sustained bear market.'

**Summary USM**

During the first six years of operation (1981-1987), the USM attracted 604 listings. Of these, 108 moved up to the Official List, 28 failed and 98 merged or were taken-over, leaving 370 USM listings at the end of 1987. (Stonham 1989)
By the end of March 1994 the USM had 225 listings. In 1994 it attracted 13 new listings, while 48 moved to the Official List, leaving 190 listings by the end of March 1995.

Since July 1994 USM companies have been moving up to the Official List as a result of
a) the decision to close the USM at the end of 1996;
b) the European Union's (EU) "Listing Particulars Directive", which made the process easier and cheaper. (London Stock Exchange 1995)

However, during 1994, the London Stock Exchange launched a new market especially for smaller and growing companies, called "AIM. It has a separate identity and an appropriate level of regulation designed to meet their special needs. A wide range of companies are expected to join AIM, from business start-ups to management buy-outs, family owned firms and some USM companies. Simplified admission procedures have been established and as an added bonus, the Treasury announced that AIM securities will be treated as unquoted for tax purposes. A formal prospectus will not be required.

While the process of joining AIM is straightforward and the costs have been kept as low as possible, each company will be required to appoint and retain the services of a nominated adviser and broker. They will play an important role in helping to maintain investor confidence in the new market. Companies will also be required to retain a member firm of the Exchange as their nominated broker to match transactions if there is no market maker.

The Exchange trading service, SEATS PLUS, will support order-driven trading as well as competing market maker quotations of AIM securities and the new market was planned to start on 19 June 1995. (London Stock Exchange 1995)
CHAPTER 7
THE INFORMAL VENTURE CAPITAL MARKET

7.1 INTRODUCTION
The reasons that inventors or new ventures have some difficulty in attracting funds from venture capital firms, in an early phase of development, are not difficult to find.

The odds of picking a winner are slim, down side risks are substantial, relatively small amounts of money are typically involved, the costs of investment supervision and guidance are high and the length of time between investment and cash recapture generally exceeds the limits of venture capital firms.

Thus, the emergence of informal investors has been hailed as a highly significant trend in the provision of high-risk capital (Gome, A., BRW 25 Sept. 1995, pp. 50-56) Informal investors - also known as "business angels" - are private investors who provide capital and "more", directly to new and growing businesses.

Informal investors tend to be financially sophisticated individuals of means, often with previous investment and/or management experience in new or rapidly growing ventures. Often ex-entrepreneurs themselves, they are more likely to accept the risks, costs and limited liquidity of inventor financing in view of perceived non-financial benefits, such as the satisfaction of business creation, giving something back to the community or the stimulation of involvement with innovative technology (Mason & Harrison 1992).

Providing seed capital or startup financing to an inexperienced management team can be very time consuming. Many of the management decisions involved in creating a new venture are unique to the startup process and will set the course of the venture through its perilous early years. Investors experienced with seed capital and startup situations can provide invaluable guidance to first-time entrepreneurs. Ideally, investors in new enterprises would also be experienced in related fields of business or technology. In other words, finding the "right" investor(s) should be an important criterion in the search for funds.
As both entrepreneurs and informal investors found it frustrating and difficult to locate each other, the establishment of business introduction services started to emerge in the USA and United Kingdom, some ten years ago.

Based on these developments, the Australian government supported a similar pilot scheme, the Business Finance Support Program, in Victoria. Under the auspices of the Department of Industry, Science and Technology and the Victorian Employers' Chamber of Commerce and Industry, this program was started in 1994.

The following sections summarise the findings of experiences in the USA and UK, followed by the Victorian initiative.

7.2 USA

In an attempt to overcome the problems that entrepreneurs and individual investors encounter in trying to locate each other, Prof. William Wetzel at the University of New Hampshire, established the first business introduction service "Venture Capital Network, Inc. (VCN)" in 1984. (Pratt's Guide to Venture Capital Resources 1988)

A not-for-profit corporation, VCN's objectives were:
(1) to solicit, compile and profile information describing opportunities for risk capital investment in new and emerging ventures;
(2) to identify active, informal investors and profile their distinguishing investment objectives; and
(3) to provide a timely, confidential and objective referral system serving both entrepreneurs and investor.

VCN did not assume a fiduciary, advisory or evaluative role in such referrals and made its copyrighted materials and software available for purchase and provided training courses, enabling the system to be replicated by other organisations in about fifteen other States and Canada.
Most of the business introduction services in North America are based on providing computer matching services.

Computerised matching services all work in essentially the same manner. Investors complete a short questionnaire (about four pages) which provides details of the types of investment opportunities that are of interest to them. Entrepreneurs also complete a short questionnaire which provides information on the characteristics of the business venture and enclose an executive summary of their business plan.

Once the questionnaires are computerised a three-stage matching process takes place. The computer first searches among its investor subscribers for angels whose investment preferences match the characteristics of the business seeking finance. When matches are found, the entrepreneur's application, which provides a description of the investment opportunity, is then sent to the matched-up angel. If the investor is interested then further information can be requested in the form of an executive summary of the entrepreneur's business plan.

Up to this stage names are not disclosed to either party. However, if the investor wishes to go further, the matching service will provide an exchange of names and telephone numbers so that both parties can meet. Because of the operation of Securities and Exchange Commission guidelines, the involvement of the matching service ends at this point. What happens after direct contact is made is strictly a matter for the angel and entrepreneur (Gaston 1989b).

An alternative approach is to provide a forum at which selected entrepreneurs can present their business plans to a group of selected investors, or a "Venture Capital Fair" at which emerging high growth potential businesses make presentations to venture capitalists and merchant bankers.
The University of Michigan has organised the "Growth Capital Symposium" since 1979 to give owner-managers of selected emerging growth companies the opportunity to present their companies and management teams to a range of investor types, including venture capitalists, larger companies seeking strategic partners, investment bankers, private investors and professional service firms and to demonstrate their products or services (Brophy & Chalmers 1991). A number of comparable programmes have been developed elsewhere in the USA.

A third approach to match-making is by means of some kind of publication which provides a listing of businesses seeking finance which is circulated either to subscribers or to targeted potential investors. This may be either a stand-alone activity or undertaken in conjunction with other forms of matching system. For example a catalogue giving brief details of companies seeking finance to support a computer-matching referral system.

For the most part, business introduction services in the USA and Canada are operated by not-for-profit organisations such as universities and chambers of commerce. Most are funded through a combination of subscriptions and state/provincial and national government programmes, charitable foundations and sponsorship from banks, public utility companies, CPA firms and other firms having an interest in local economic growth. For example, seed capital for VCN was provided by the Business and Industry Association of New Hampshire in the form of an interest-free loan. Subsequent funding was obtained from the US Economic Development Administration, corporate sponsors (three international accounting firms, a firm of attorneys, and a computer company) a charitable foundation and the University of New Hampshire (Wetzel 1986).

The significance of informal investment in the USA is enormous; Prof. Wetzel (1986) suggested that business angels "represent the largest pool of risk capital in the US" and "finance as many as twenty times the number of firms financed by institutional venture capitalists." Gaston (1989a) similarly concludes that informal capital is the single largest source of external equity capital for small business in the US, almost exceeding all other sources combined.
(For example, Prof. Wetzel estimated in 1986 that the New England region with a population of about fifteen million has approx. 80,000 high net-worth individuals or potential business angels and at least 10,000 active private investors (Wetzel 1986)).

The profile of an American "typical" angel is as follows (Wetzel 1986):

1. **Age** 47.
2. Education: Post-graduate degree, often technical.
3. Previous management experience with startup ventures.
4. Typically invests from US$20,000 to US$50,000 in any one venture.
5. Invests at a rate of approximately once every two years.
6. Typically participates with other financially sophisticated individuals.
7. Prefers to invest in startup and early stage situations.
8. Willing to finance technology-based inventors when technology and markets are familiar.
9. Limited interest in financing established, moderate growth, small firms.
10. Strong preference for manufacturing ventures, high technology in particular.
11. Invests close to home - within 300 miles and usually within 50 miles.
12. Maintains an active professional relationship with portfolio ventures, typically a consulting role or service on a board of directors.
13. Diversification and **tax** sheltered income are not important objectives.
14. Expects to liquidate investment in five to ten years.
15. Looks for compound annual rates of return on individual investments ranging from 50 per cent **from** inventors to 20-25 per cent **from** established firms.
16. Looks for **minimum** portfolio returns of about 20 per cent.
17. Often will accept limitations on financial returns or accept higher risks in exchange for non-financial rewards.
18. Learns of investment opportunities primarily from friends and business associates.
19. Would like to look at more investment opportunities than present informal system permits. (Wetzel 1986)
7.3 UNITED KINGDOM (UK)

In the UK the ability of the informal venture capital market to assume a significant role in the financing of new and growing businesses was limited by its unorganised nature, the invisibility of business angels and the high search cost of angels for ventures and vice versa.

During the 90’s, the United Kingdom saw the development of three types of business introduction services (Mason & Harrison 1992):

a) The first category comprises private sector, for-profit match-making initiatives, either stand-alone or as part of accountancy firms. In monthly investment bulletins articles describe the new venture, its strengths as well as any missing ingredients, both financial and non-financial. Subscribers may contact the business in which they are interested directly. Accounting firms also publish regular investment opportunities although most matching is undertaken through a personalised approach.

b) The second category comprises the Local Investment Networking Companies (LINC), which integrates various local introduction services into a nation-wide one. LINC publishes a monthly investment bulletin with short descriptions of businesses seeking finance, and investor-subscribers can request a business plan summary of any of the investment opportunities published. Some agencies organise investors' meetings at which entrepreneurs present their business plans to potential investors. BP innovation LINC specialises in introducing private investors to technical investors. In 1992, the number of LINC agencies and BP innovation LINC agencies in the UK was eleven and twenty-two respectively.

c) The third category comprises public sector business introduction services, with varying degrees of success. In an effort to back the creation of a marriage-broking service for investors and entrepreneurs, the British Government selected some Training and Enterprise Councils (TEC’s) in England and Wales to operate business introduction services in conjunction with other local organisations.
Research by Mason, Harrison & Chaloner (1991a) describes a "typical" British business angel as:

1. Business owners, company directors or business related professionals.
2. Invested funds, generally between 10,000 - 50,000 pounds.
3. One investment per year.
4. Acceptance rate of identified opportunities: 8%
5. 40% of investments are syndicated.
6. Investments in most industrial sectors.
7. Preference for early stage ventures.
8. Strong preference for venture's location within 150 km of investor's home.
9. Investor seeks:
   (a) capital appreciation;
   (b) active "hands-on" role.
10. Prepared to take long-term view and minority equity position.
11. Key factors in decision:
   (a) quality of management;
   (b) growth potential of venture.

These researchers also predicted an increase in importance of the informal venture capital market during the 90's due to:

(a) growing numbers of new / growing businesses prefer equity finance over debt finance;
(b) decrease in availability of banks loans, as banks increase security demands and costs of borrowing;
(c) formal venture capital market funds have shifted away from early stage investments in favour of development capital and "buy outs/ins".

Despite the declining availability of alternative sources of loan and equity finance, the informal venture capital market has remained under-used by small businesses, as both private business angels and those registered with LINC could have invested more (up to three times more: 50,000 to 100,000 Pounds) if they had come across more suitable investment opportunities (Mason, Harrison, Chaloner, 1991a; 1991b).
However, the UK lead in the promotion of informal risk capital has been followed by a number of European countries, including the Netherlands (Van Peer, 1988). Sweden (Landstrom, 1991) and France (Welles, 1991).

7.4 AUSTRALIA

Small businesses and entrepreneurs agree that new venture capital is hard to find in Australia. The Australian environment is still risk adverse and venture capitalists - institutional fund managers - consider the potential investments too small to spend time on analysing the proposals. In addition, their pre-occupation with short-term returns precludes investments in longer-term growth stocks. (Gome, A., BRW 25 Sept. 1995, pp. 50-56)

Thus, it is not surprising that an informal venture capital market is also emerging in Australia. Keen to promote the "business angel" idea, the Federal Government supported a pilot business introduction service in Victoria, The Business Finance Support Program, in 1994. Careful to avoid the pitfalls associated with managing such an organisation successfully, the program's format and procedures were based on research findings of business introduction services in the USA and UK by Mason and Harrison (1992).

First and foremost, business introduction services must be perceived by their potential clients as offering a convenient, confidential and trustworthy service. Secondly, the service must create a client base that is sufficiently large and diversified to be capable of providing a significant number of introductions. Furthermore, five key operational issues (organisation, finance, marketing, operations, evaluation) require careful consideration. (Mason & Harrison 1992)
(1) **Organisation**

(a) **Who should operate a Business Introduction Service?**
In general, the most appropriate type of organisation to operate a business introduction service is a not-for-profit organisation which is respected and can claim broad-based community support (eg. Universities, chambers of commerce, business innovation centres, economic development agencies, etc). Such organisations are likely to have a high level of credibility with both investors and entrepreneurs, who will be comfortable that such organisations are genuinely interested in fostering local economic development, have no vested interest in encouraging inappropriate matches and will maintain strict confidentiality. In addition, they may have a high level of visibility, enhancing accessibility to clients. (Mason & Harrison 1992)

(b) **What should be the geographical scale of operations of a Business Introduction Service?**
Informal investors show a strong preference for investing in businesses in the same region and often in the same locality as they require relatively frequent contact with the company they invest in and seek to minimise travelling time. Businesses, on the other hand, do not regard geographical proximity of a private investor as important. (Gaston 1989b; Mason et al. 1991a)

However, as recruiting investors poses a greater challenge than attracting businesses, it seems sensible to locate a service which meets the needs of investors, which is a **local/regional** service. (While American and British investors prefer to invest in firms up to 150 km **from** their homes, Bob Beaumont, Coordinator of Victoria's Business Finance Support Program believes that Australian angels may be more flexible in this respect, due to different geographical characteristics, eg. lower population density).

(2) **Finance**

(a) **How should a Business Introduction Service be financed?**
All indications are that such service can not be operated as a profit making activity. (Mason & Harrison 1992) The operation of a business introduction service is highly labour-intensive, with its only source of income being the fees levied on businesses and investors.
Those for-profit business introduction services which survived formed part of a larger organisation which cross-subsidised the service. Business introduction services must therefore rely on a combination of a subsidy from their sponsoring organisation (eg. University, chamber of commerce, economic development agency), government grants and corporate sponsorships (eg. banks, accounting firms, computer companies) to meet the gap in their operating budgets that is not covered by revenue from subscriptions and fees.

Given the potential for high economic benefits to a region, the greater cost-effectiveness of supporting a business introduction services compared to investing the same amount directly in a small business or offering it as a tax incentive, a strong argument can be made for Federal and State public bodies responsible for economic development to provide financial support to business introduction services.

(b) What kind of fee structure is appropriate?
Although the answer to this question depends on the financial objectives of the service provider (eg. for-profit, non-profit/sponsored) a registration fee (in case of computer match-making) or subscription fee (to an investment bulletin) is recommended, as it helps to eliminate non-serious clients. New business introduction services may waive fees for investors until a reasonable number has been recruited.

Setting the level of fees should take into account the cost of alternative sources of information and the savings in time and legwork which the client obtains from the service.

A different rate for investors and businesses could be considered: even different rates for different types of investors (individual, corporate, local, overseas), pre-start-up ventures and established companies.
The charging of a "success-fee", either when a match is made or based on the amount of finance raised, is less popular as this approach is difficult and time consuming to monitor.

Finally, the level of the fee can not be set independently of the services provided, eg. assistance with the preparation of a business plan, registration on a computer database (locally, regionally, nationally), receipt of an investment bulletin, attendance at presentations by businesses seeking finance, etc. (Overseas, a registration fee between $100-$500, appeared acceptable). (Mason & Harrison 1992)

(3) Marketing

(a) How to build a client base?

The client base is of crucial importance to the success of the service and must have the following characteristics:

- Size: it must attract sufficient investors and businesses; Wetzel (in Mason & Harrison 1992) estimated that the minimum number of investors is about 200.
- Diversity: to avoid any imbalance a wide range of businesses (in terms of stage of development, industry, amount of finance, "high" versus "low" tech) and investor-types (eg. amount of available investment, industry preferences, skills) needs to be attracted.
- Quality: the service needs to screen-out "lemons" through minimum listing requirements, and to ensure that investors who do not invest on their own behalf or do not wish to make a "hands-on" contribution may be kept out.

While recruiting businesses may be easier than investors, the turn-over of business clients will be higher than for investors (estimated to be 100% every 6-12 months for entrepreneurs and 30-50% every 12 months for investors). Depending on the services' profit-motive, more or less rigorous filtering of businesses (which is costly) may lead to the recruitment of certain type businesses and investors. (Mason & Harrison 1992)
(b) Recruitment strategies.
As advertising for businesses may lead to a large response and therefore involve considerable filtering, a better approach is to seek referrals from professional intermediaries, such as accountants, solicitors, business consultants, government agencies, universities, banks and venture capital fund managers. Investors may consider investing alongside venture capital funds and government economic development agencies attractive, as a sense of security is provided; the fund, on the other hand, could use the investor as its monitoring angel.

The three most effective approaches to identify actual and potential investors are:
- referrals by professional intermediaries as described above;
- media publicity: editorial coverage, press releases, articles;
- direct mail campaign, using well targeted mailing lists (e.g. speculative investors, sports-car owners, yacht and boat owners).

Once identified, the challenge is to sell the investors the concept of a financial "marriage bureau" as a valuable service that minimises their cost of searching for investment opportunities. (Mason & Harrison 1992)

(4) Operations
(a) What kind of matching mechanism?
The three main matching processes are:
- computer matching;
- a publication giving details of business seeking finance;
- presentations by entrepreneurs to an audience of investors.

Computer matching is widely used in the USA. One of the key issues seems to be the right balance in screening criteria: if too broad, too many investment opportunities are presented; if too narrow, critical details of interest to the investor may not be presented.
Investment bulletins have been used widely in the UK. The issue here has been to achieve a balance between the number of investment opportunities and the amount of detail provided. Both investors and entrepreneurs prefer a two-page description over a short summary.

Investor meetings are widely used in both the USA and UK. However, Mason and Chaloner (1991a) found that less than 50 per cent of investors surveyed were interested in this method.

To make such meetings more effective, it was suggested to have similar types of businesses make presentations at each meeting, to provide relevant information prior to the meeting and to limit presentations to thirty minutes.

(b) How can the conversion rate be maximised?

Because introduction services lack adequate resources to monitor the results of introductions, matches are very likely under-estimated. Indications are however, that successful matches have been very small.

Two factors seem to contribute to a low conversion rate (Mason et al. 1991b):

I. Concerns by investors about the quality of business opportunities and entrepreneurs’ complaints that investors are either "not serious" or are intermediaries.

   Screening of both investors and entrepreneurial proposals (within given financial and legal constraints) is advocated, together with the submission of a business plan by businesses seeking registration.

II. Lack of experience in the investment process.

   In addition to assisting entrepreneurs with the preparation of their business plan and presentation, businesses must be given feedback as to the reasons for the lack of interest by investors. To overcome disagreements between the parties regarding an appropriate risk-reward ratio or the investor's equity stake and role in the company, professional workshops should be offered to educate both parties in pricing and structuring of equity investment principles. This would increase the competence and confidence of investors and entrepreneurs to negotiate the price and other terms and conditions of a venture investment.
Business introduction services could also encourage the formation of informal investor-syndicates (to create larger investment amounts) to enhance the conversion rate.

(5) **Evaluation**

(a) *How should performance be assessed?*

As the role of a business introduction service is to provide information (to investors and entrepreneurs) and their objective is to provide introductions, the most appropriate basis for evaluating the performance of such services is in terms of the number of introductions made and the average number of introductions received by each investor and business.

Additional indicators of effectiveness would be the amount of finance that investors have available for investment, some measure of client satisfaction and benefits derived from the experience. (Mason & Harrison 1992)

Establishing meaningful performance targets needs to take into account such factors as the type of matching service, industry orientation, geographical area, fee structure and profit-motive.

While private services may decide to limit disclosure of performance indicators so as not to prejudice potential clients, Government funded services would be obliged to report on where their money has gone.

**VICTORIA'S BUSINESS FINANCE SUPPORT PROGRAM**

Taking to heart overseas experience as summarised above, a pilot business introduction service was launched in November 1994.

According to Mr. Bob Beaumont, Victorian Employers' Chamber of Commerce and Industry (VECCI), the Business Finance Support Program in Victoria has the following features:
(1) **Organisation**

The program is run by a small team, headed by a co-ordinator, under the auspices of the Victorian Employers' Chamber of Commerce and Industry (VECCI). Its office is in Melbourne and its primary target area is Victoria.

(2) **Finance**

The Federal Department of Industry, Science and Technology is sponsoring the program with a grant and the fee structure is consistent with the initial aim of attracting both investors and businesses.

There is no initial joining fee for investors, unless they wish to put more than one application in the system. In that case the annual fee is $100. - per application. The annual listing fee for accepted businesses is $200; they will also receive an authorised Business Profile.

(3) **Marketing**

As the program is still in its infancy, no advertising or media publicity (on a large scale) has been undertaken; the client base is gradually established by referrals from other Government Agencies, although professional intermediaries (such as banks and accountants) have started to show interest in the scheme.

Occasionally, the VECCI and a group of sponsors organise seminars to introduce the program and provide entrepreneurs with an opportunity to promote their businesses.

(4) **Operations**

All potential clients are required to complete a very comprehensive questionnaire, which forms the basis for acceptance and the development of a profile by the VECCI. The VECCI will refer businesses to other Government Agencies or professional service groups for assistance if any weaknesses prevent entry on the database (eg. development of a business plan).
The service is computer-based and in accordance with certain criteria set by the VECCI. Following a "match", both parties receive each other's profile and if they wish to enter negotiations, the VECCI (with written authority) will disclose their identity. The automated matching process in the database will be suspended until advised of the outcome of negotiations (in which the VECCI will not participate).

(5) **Evaluation**

Formal results have not been published yet, but indications are that the program is not lacking interest: some 150 investors and 500 businesses have registered and more than 100 introductions have been made, of which about 60 per cent are reaching "hitching" stage.

In addition, the service has been highly successful in assisting businesses to become "investment-ready"; that is, assisting managers with thinking ahead, with separating personal from business matters, with the development of factual financial accounts and a proper business plan.

Reportedly, the Federal Government is keen to develop the "Business Angel" concept and a culture in which equity is considered before debt-finance. Funding, totalling $700,000 (1994195) for Victoria's Business Finance Support Program and Idea and the Investor, an Adelaide based scheme (on the Internet), will be maintained and increased, if necessary.
CHAPTER 8
ANALYSIS AND CONCLUSION

Introduction.
The structure of this final chapter is as follows.

It commences with an analysis of the rise and fall of the Second Board stock market, a comparison with developments in the US' NASDAQ and the UK’s USM, and relevant results of the survey conducted among ex-Second Boarders.

The next section addresses the key success/failure factors in the light of survey results, together with a discussion of desirable government initiatives.

It concludes with a list of recommendations, encompassing the findings of this study.

8.1 VENTURE CAPITAL
The establishment across Australia of a second primary stock market with relaxed listing rules to allow new businesses access to equity funds without loss of control over their operations, was successful from 1984 to 1987 as the following data indicate:

1) Some 474 companies listed nationwide.
2) National market capitalisation: $5.4 Billion (Sept/Oct ’87).
3) Equity raisings: $1.75 Billion (198617).
4) Stock Turnover: 1.7 Billion Shares, worth $1.0 Billion. (198617).
5) National Second Board Price Index: 3,988 (30 June ’87). This price index outperformed the All Ordinaries and All Industrial Indices.

In addition, special services were created to cater for this new investment market.

- Australian Second Board Consultants (ASBC) specialised in advising and reporting on all aspects of the Second Board market, including ancilliary services.
The national Second Board Association, a lobby group interested in all parties of the Second Board mix, was established in May '87.

Personal Investment magazine and The Herald newspaper began to publish Second Board data in 1987.

Three leading stock brokers and institutional investors started to support Second Board stocks in 1987.

The stock market crash in October 1987 was the beginning of the end of the Second Board in 1992. Contributing factors were:

a) The establishment of the ASX in April 1987 weakened the role of the now subsidiary State stock exchanges, in particular the four smallest ones which had promoted the Second Board as a means to encourage local economic growth.

b) The flood of so-called "cashboxes" (finance and investment companies) onto the Second Board threatened to undermine public confidence in the junior bourse and forced the ASX to tighten listing regulations for investment companies.

c) By the end of 1988, the Australian Second Board Price Index had dropped by almost 70 per cent (compared to a fall of 30 per cent in the All Ordinaries Index) and trading in Second Board stocks had virtually stopped by 1990; equity raised was negligible in 1989190.

d) By late 1990, the ASX was anxious to introduce its computerised Stock Exchange Automated Trading System (SEATS) nationally, across all trading floors; this would eliminate any differentiation between various boards.

e) On 1 January 1991, the ASC replaced the NCSC and as corporate watchdog joined the ASX in its concern for the need to maintain investors' confidence in the securities and futures markets.

f) Companies listed on the Second Board would be given the opportunity to list on the Main Board (and five years to meet its requirement) upon closure of the Second Board on 1 January 1992 (in effect 30 June 1992).
While critics maintain that the Second Board was ill-conceived, responding too much to market pressure during "boom" conditions and never promoted as a high-risk investment - which it was - it also met an urgent need by small new companies to raise relatively cheap equity capital; and that original goal remains valid.

Review of similar markets in the USA and UK showed that, although affected by similar dilemmas (due to the worldwide recession) as our Second Board, they survived the "bear" market conditions.

Not quite comparable to our Second Board, but still a suitable model, the US' OTC market, NASDAQ, was also considered an "incubator" market for the main exchanges. Commenced as a dealer market in unlisted securities in the '60's, it reorganised and computerised itself in 1972 and joined the National Market System (linking it with the major stock exchanges) in 1982.

Since then, the growth of NASDAQ has been at the expense of the exchanges and in 1993 it was the second largest securities market in the world (after the New York Stock Exchange) with 43 per cent of NYSE’s dollar volume of trading.

In 1993, NASDAQ dealers traded in some 4,000 issues (listed and unlisted), captured 42 per cent of share volume and 29 per cent of dollar volume of the total US equity market. (US Securities and Exchange Commission 1994)

In the United Kingdom, the USM was established in November 1980 and formed a model for the establishment of Australia's Second Board in 1984. Between 1981 and 1987, 607 companies listed on the USM and at the end of 1987 it had 370 listings. Although lack of data prevents detailed analysis, the USM survived the 1987 stock market crash: by the end of March 1994 it had 225 listings with a market value of almost 6 billion pounds.
However, the UK becoming a member of the European Union (EU) required the introduction of changes by the London Stock Exchange (LSX) to comply with EU legislation, such as its "Listing Particulars Directive" and "Investment Services Directive".

Together with a review of its markets the LSX decided to create a new Alternative Investment Market (AIM) designed to meet the needs of smaller, growing companies and to close the USM at the end of 1996.

During 199415, forty-eight USM companies moved-up to the Official List raising 7.4 billion pounds and thirteen companies joined the USM raising 112 million pounds. By March '95 (the end of the LSX financial year) 190 companies with a market value of 4.6 billion pounds were still listed on the USM. Because the EU’s Listing Particulars Directive makes it easier and cheaper for USM companies to move to the Official List, many companies are expected to do so, while others may join the AIM. (LSX 1995)

Given the above two questions need to be raised: Was the closure of the Australian Second Board Stock Market premature? Could the ASX/ASC, through a more appropriate regulatory framework, listing and reporting requirements and marketing strategy, have "saved" this venture capital market for the benefit of new and small businesses? The answer to both questions has to be: yes. This conclusion was supported by those ex-Second Boarders which responded to the survey. (N.B.: Responses by shareholders and directors of failed companies would have given a more balanced picture.)

Seeking an evaluation of the "Second Board Experience", companies were asked if they would do it again. Although two companies did not know, all other (seven) companies answered "yes", indicating that the benefits of listing on the Second Board outweighed the disadvantages.
Particular disadvantages recorded were the greater complexity, cost and time involved compared to the traditional borrowing process. The two main benefits gained were larger amounts of capital funds and the prospect of more funds in the future - a key success factor for growing companies.

An issue which has not been clarified by the survey pertains to the profile of businesses that sought listing and may seek listing on any future second stock market. (This was exacerbated by authors' interchangeable use of words such as new/small/growing, venture/enterprise/business and venture/development capital).

The analytical framework was based on the premise that a capital crisis existed in particular for companies in development stages 2 and 3 (Commercialisation I: prototype and start-up, and Commercialisation II: sales, no profit) and that these companies would benefit most from the Second Board.

Those seeking seed capital for R+D (stage 1) would probably lack investors' confidence and would be better off with MIC’s, while more mature, profitable companies (stages 4 and 5) were in a better position to attract funds or could seek listing on the Main Board.

However, of the nine responding companies, three were in development stage 1, five in stages 4 and 5, and only one company was in stage 2. This was also reflected in the allocation of the funds raised on the Second Board Stock Market: 40 per cent went to R+D and 24 per cent was spent on buying-out existing shareholders.

If the Government were to consider the creation of another second stock market, its regulatory framework should reflect the needs of the businesses and investors it aims to attract. Research into the new market, AIM, launched in 1994 by the LSX, should provide valuable information.
8.2 KEY FACTORS

Two particular objectives of conducting the survey among Second Board companies were:

- to identify new business needs during the early stages of development and
- to identify desirable Government initiatives for new businesses.

It should be noted that only successful companies participated. If it had been possible to include unsuccessful companies in the survey a better picture as to which factors prevent success or lead to failure would have emerged. This area is still very much in need of systematic and ongoing research.

An analysis of new business success/failure factors and associated potential Government initiatives follows.

Technical Skills
Responses indicated that the technical know-how factor was more than satisfactory in all companies at the time of listing. This high level of technical know-how is consistent with the fact that seven of the nine companies classified their innovation as "new discovery", "new technology" or "new design".

The finding would have pleased ex-Prime Minister Paul Keating, who stated that Australia had to become "the clever Country" if it wanted to compete successfully on world markets, a view shared by many analysts and management writers. Business growth increasingly involves the better use of knowledge and is more a function of the ability to convert knowledge, information and ideas into financial transactions, rather than using physical resources more efficiently (James 1995, BRW).

Management Skills
- financial management
- strategic planning and control abilities
- marketing and sales management
On balance, the management skills factor was also more than satisfactory in all nine companies. Financial management was strongest, followed by planning and control. Marketing and selling skills were satisfactory to very strong in five companies, but four were weak to very weak in this area at the time of listing.

The companies which rated themselves weak in planning/control abilities and marketing/sales management were found to be very young and in stage 1 (R+D) - a possible explanation for their not having addressed these factors yet.

With respect to these key success factors, Technical and Management Skills, the need for more Government initiatives in the area of education and training has been promulgated in the literature. However, respondents to the survey were split regarding this issue: four considered improved and expanded training facilities a very important initiative, but five thought it was not important at all.

In the light of this result and considering the Government's efforts to enhance business education/training programs (at great cost), it seems prudent to refer to two studies (Kennedy 1995, BRW; Emery 1995, BRW) which question the effectiveness of formal education and training.

The first concerns an international survey (by Matz Kurki, South Australian Centre for Manufacturing) of 3000 consistently high-growth SME’s in US, Canada, Europe, UK and Australia. The critical success factors found were:

- A management team that has extensive experience in the specific industry of operations.
- Strong leadership skills of the owner/CEO, who is a hands-on manager and motivator, who has values and a mission.
- Careful recruitment of core staff with extensive, relevant industry experience.
- A dedication to people development and promotion within the company.
- Niche-focused; market driven; competition on value rather than price.
Flexibility: decentralised management structure, responsive to market changes and customer requirements, innovative ways in "doing business".

Disciplined control systems: cashflow and key operational performance indicators.

Interestingly, every one of the above mentioned success factors was also mentioned by the respondents (to the present survey) to the open-ended question asking them to list up to three factors which contributed most to the business' success.

The second is a review of the Karpin Report on Australian management by Fred Emery, former chairman of the Tavistock Centre for Human Resources, London. The Karpin Report research was undertaken by Reark Research, involving 2116 line managers of 475 medium to large private companies in Australia.

It sought the views of managers on the benefits gained by three types of management training:
- in-house training
- external short courses/seminars
- certified coursework: MBA, Graduate Certificate in Management, TAFE Management Certificate.

While in-house training and external short courses are seen to contribute to what is relevant to the job, one's personal development and to being a better manager, the certified coursework is a non-starter. Emery refers to another survey by David Midgley in 1990 for the National Board of Employment, Education and Training which findings were similar and concludes that formal education is ineffective and that the Karpin Report's recommendations for the Federal Government to become more involved, fly in the face of the facts in that report and the commissioned research.

In summary, the findings indicate that formal education/training is not a critical success factor - experience is; and that instead of spending large amounts of public funds on MBA’s, etc., the Government should consider directing some funds to private enterprise based in-house learning.
**Networking**
- access to distribution networks
- access to markets

All survey respondents, except one, reported these factors as having been satisfactory to strong at the time of listing.

In terms of government initiatives in these areas, companies were asked how important it was to them to have access to better business information and a range of government delivered support programs. They were rated as less than important. However, these responses may have been influenced by the fact that relevant information and support programs have been difficult to find. The Federal Government's initiative to establish AusIndustry (in 1995) is a step in the right direction towards removing that obstacle.

The aim of AusIndustry is to provide an entry point to the more than 500 different enterprise development programs offered by the Commonwealth, State and Territory Governments. It does this through an extensive advice and referral system and individual client management to help firms get the most from the wide ranging assistance measures available to them.

**Financial Resources**
- access to capital funds

Three of the nine responding companies experienced difficulties with raising capital funds prior to listing on the Second Board. Only one was very young and in an early stage of development, a possible reason for lack of lenders’/investors’ confidence, but the other two companies were older than five years, in manufacturing and had reached maturity stage.
Reasons for experiencing difficulties in obtaining capital funds are many, but fall broadly into two categories:

1. Our financial institutions do not understand businesses, are too focussed on short term results, are reluctant to invest in smaller companies (high risk) and consider an investment of less than $1 million uneconomic (process costs). (Gottliebsen 1995, BR W)

2. Our entrepreneurs/company owners fear loss of control over their business, fail to establish a quality management team and sustainable market niche, are reluctant to seek/accept advice and to have their accounts audited. In short: they are not investment-ready. (Gome 1995a, BR W)

When the survey asked respondents if the Government should improve access to funds
a) through the regulation of financial institutions,
b) through the ASX under special listing and control regulations,
c) through networking private investors and those in need of capital funds,
their answers favoured (b) over (a) over (c) in terms of importance.

This result very likely reflects the ex-Second Boarders experience with traditional borrowing (a), listing on the Second Board (b) and their lack of experience with "Business Angels" (c).

The provision of access to venture capital by matching private investors, so-called "Business Angels", with investment seeking new businesses, has been very successful in the USA since 1984. This informal venture capital market has become the single largest source of external equity capital for small businesses, almost exceeding all other sources combined. (Gaston 1989a)

Similar business introduction services have been established in the UK since the early 90’s, however with mixed results.
Since the demise of government licensed MIC’s (1991), the closure of the Second Board (1992), together with the reluctance of institutional investors to invest in new ventures, development funds were again hard to find in Australia.

So, based on research findings of business introduction services in the USA and UK, the Federal Government funded a two-year pilot program in Victoria: the Business Finance Support Program, delivered by the Victorian Employers’ Chamber of Commerce and Industry.

During its first year of operations (1994-15) some 150 investors and 500 businesses have registered and more than 100 introductions have been made. The service has also assisted businesses to become "investment ready", a critical success factor in attracting capital funds.

The jury is still out on this latest Government initiative and it may not be the definitive solution to new businesses' finance problems, but it may take Australia out of the "Dark Ages” in terms of giving our entrepreneurs a fair go.

**Government Financial Support Schemes**

- Government involvement and funding of R+D
- incentives through grants and the taxation system (depreciation, tax deferral, etc.)
- reduction in fees, charges, Red Tape.

The survey also sought to identify some stimulating/inhibiting factors beyond the control of companies and, on average, respondents rated any financial incentive and a reduction in Government charges/Red Tape as very important to critically important. Opinions regarding direct Government involvement in R+D differed: those involved in R+D (stage 1) considered it very important, but those in other stages of development disagreed.

These findings are supported by those of the international study undertaken by the South Australian Centre of Manufacturing (Kennedy 1995, *BRW*) which identified as major road blocks to high-growth companies: Government regulations, taxes and levies.
Other Government Assistance Schemes
– further research into needs of businesses, in order to provide more appropriate support.

Responses to this suggestion were also diverse and one company commented: 'they should know by now'. Indeed they ought to.

8.3 RECOMMENDATIONS
Governments are notoriously slow in responding to new challenges and, when they do, they often do not get it quite right. The present study identified some examples such as the Second Board, VEDC and MIC’s, and the effects of educational programs, PDF’s and the most recent initiative to allow banks to become (limited) equity investors, require thorough evaluation in the near future.

In addition, in terms of Government initiatives, results of this study indicate a need for:

1) A re-appraisal of the appropriateness of increased Government funding of MBA’s and similar formal education programs.

2) Following the above, appraisal and initiation of effective, private enterprise based educational/training programs (such as those resulting from the training levy).

3) Incentives through the taxation system and reduced charges and bureaucratic red tape.

4) Systematic evaluation of all business support schemes, delivery of which is now co-ordinated by AusIndustry.
5) The development and establishment of industry-wide benchmarks for measuring the capital risk associated with venture projects; a standardised measurement framework and reporting system on SME investments would help in defining a risk/reward profile of this new asset class.

6) Together with the above, educational programs for venture capital fund managers and appropriate changes to legislation to stimulate investment in smaller businesses by our financial institutions, eg pension funds and insurance companies.

7) As banks are now (since December '95) allowed to take up direct equity in their clients, creating a potential conflict of interests within the banking system, an inquiry into the management of this new service needs to be conducted in due course.

8) A review of ASC regulations which prevent small companies from looking for a few investors (at reasonable cost) and prevent the formation of an alternative second-level stock exchange in Australia.

9) The establishment of a new second board exchange suitably regulated for SME’s (in terms of costs) and investors (in terms of protection).

10) Ongoing evaluation of the two pilot business introduction schemes (Victoria's Business Finance Support Program and South Australia's Ideas and Investor Scheme), research into Australian "Business Angels", further development of the schemes (based on experience gained) and further funding.
Appendix 1

Second Board Listing Requirements
(with only minor differences between States)

(1) Not to be involved in mining or oil exploration nor to be a property trust;

(2) Must have fifty (Perth, Adelaide, Brisbane, Hobart) or one hundred (Melbourne, Sydney) shareholders minimum;

(3) Must have a minimum issued capital of $100,000 (Perth, Brisbane, Hobart), or $200,000 (Melbourne, Sydney), maximum capital before promotion to Main Board: $10M (all) except Brisbane: $20M;

(4) The greater of $70,000 or 25 per cent of capital to be in public ownership (ordinary shares only);

(5) Company can issue differential classes of fully paid shares with varying voting rights (as protection of original owners against takeovers);

(6) Publication of Annual Report, yearly and half-yearly profit reports and disclosures of all relevant information which may affect the price of the Company's shares;

(7) Lower listing fees, eg, initial fees on sliding scale $900 too $10,000 and annual fees from between $1,000 and $2,800 (about half the cost of Main Board fees);

(8) Second Board listing pertains only to the Capital City where approval to list has been granted (Main Board listing is national);
The company floats on the Second Board by **EITHER** the issue of a Prospectus (approved by Stock Exchange and registered by Corporate Affairs Commission) which invites the public to prescribe for unissued shares in the company **OR** an Information Memorandum to obtain compliance listing with Stock Exchange when the Company meets listing requirements and does not need further capital immediately **OR** a private placement when a stockbroker places the shares with established investor clients;

Must be sponsored by a member of the Stock Exchange (especially if the Company has no track record of trading) to assist the Company in the listing process;

To complete second board listing procedures, a sponsoring broker, solicitor, investigating accountant and auditor are necessary; estimated cost $63,000 to $201,000 (in 1986);

Any Company with more than $300,000 profit per **annum** could consider Second board listing;

Only fully-paid ordinary shares will be listed, except the Melbourne Stock Exchange which will also quote loan securities, options and preference shares.
Appendix 2
Australia's Share Price Indices

Australian Second Board Index.
The following hypothetical example illustrates the mechanics of a share price index.

- 1,000 points is represented by the par-value of all issued shares by all Companies listed on the Second Board of the Australian Stock Exchange, on 31 March 1985. Initial capitalisation is say $20 million.
- 1,500 points reflect the premium paid for these shares on say, 31 May 1985. Total capitalisation is now $30 million.
- An increase in the number of companies listed and shares issued during June results in an increased total capitalisation to say $40 million (excluding any increase due to price increases of previously issued shares) to which the ASB Index needs to be adjusted: 1,500 points now represent $40 million.
- Any further increase in capitalisation due to trading (since 31 May) is reflected by an increase in the ASB Index, until another adjustment needs to be made.

Australia's All Industrials Index and All Ordinaries Index.
Australian Stocks have been categorised into 23 groups each with an individual index such as: Gold (1), Oil and Gas (4), Building Materials (7), Alcohol and Tobacco (8), Retail (13), Banks and Finance (16), Property Trusts (20), In addition, 6 "composite" indices have been created, as follows:
- 20 Leaders
- 50 Leaders
- All Mining (groups 1-3)
- All Resources (groups 1-5)
- All Industrials (groups 6-23)
- All Ordinaries (groups 1-23)

The "All Industrials" is based on 200 companies, while the "All Ordinaries" is based on 260 companies; both are continually monitored and adjusted for deletions and additions (prior to 1985 adjustments were made once per year) calculated quarterly, last prices/indices were indexed to 1,000.00 in June 1985.
Appendix 3

MANAGEMENT AND INVESTMENT COMPANIES (MIC'S)

In response to one of the key recommendations in the Espie Report, the Government commenced in May 1984 the licensing of Management and Investment Companies (MIC's).

The goals of the MIC program were (MIC Act 1983):
1. to stimulate the development of a private Australian Venture Capital Market and
2. to provide financial and managerial assistance for the start-up and expansion of Australian businesses that are export oriented, that use innovative technology and that have the potential for rapid expansion.

The MIC-licensing Board's role was the licensing and monitoring of MIC's and the allocation of approved capital. Approved capital was the amount MIC's were entitled to raise from investors, who could claim a 100 per cent tax deduction. However, as other investments schemes provided better incentives, the MIC program experienced difficulties in raising the amount licensed. Only when the MIC Board permitted the MIC's to raise funds in the form of convertible redeemable preference shares (effectively giving investors a 100 per cent tax reduction on capital subscribed, the certainty of regaining all the capital invested in four years and a free option) did the MIC fund raising effort meet with success.

The MIC Board's licensing strategy also caused problems. Instead of licensing a sufficient number of participants to eliminate the potential monopoly value of a licence and making entry into this new market easy, the Board restricted the number of licences to eleven (later expanded to fourteen). Captured by the original licencees, the Board covertly changed its charter form building a venture capital market to protecting non-competitive MIC's (Golis 1989).
Cutbacks resulted in the MIC program being reviewed in 1987 by the Bureau of Industry Economies (which recommended cessation of the taxation concessions), but strong lobbying, particularly by the MIC Board saw the program extended to June 1991.

The MIC program (1984-1991) raised $392M for investment and $210M was invested in 155 businesses. (Golis 1993).

Although the program was discontinued in 1991, some MIC’s have survived and are significant sources of investment funds. So-called "MIC parallel funds" are companies formed by Managers of the original MIC's to raise funds form institutional investors and invest in companies which were ineligible under the MIC program.

To replace the MIC program, the Government announced a new initiative in June 1992: Pooled Development Funds (PFD’s) although PFD’s were designed to give tax incentives (including capital gains tax relief) to those investing in up-and-coming companies, the scheme did not work because the public servants inserted so many rules that it all became too hard (Gottliebsen, R. comment in BRW 30 Oct. ’95, p. 5)

In May 1995 twenty six PDF’s were registered by the PDF Registration Board; four of these are located in Melbourne.
## Appendix 4

### SECOND BOARD COMPANIES WITH MELBOURNE AS HOME EXCHANGE

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<th>Delisting Date</th>
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<td>6/2/87</td>
<td>26/10/88</td>
<td>---</td>
</tr>
<tr>
<td>52</td>
<td>LEV</td>
<td>Lemvest</td>
<td>31/7/87</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>53</td>
<td>LSI</td>
<td>Leisure Industries</td>
<td>15/5/87</td>
<td>12/93</td>
<td>(2/1/92)</td>
</tr>
<tr>
<td>54</td>
<td>MAP</td>
<td>M.Asia Pacific Investments (ex - Just Australia China; ex - JUS, Just Shanghai)</td>
<td>8/5/87</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>55</td>
<td>NBE</td>
<td>N.B.Estates</td>
<td>22/8/86</td>
<td>30/8/89</td>
<td>(3/3/88)</td>
</tr>
<tr>
<td>56</td>
<td>NTD</td>
<td>National Drafting Industries</td>
<td>22/4/88</td>
<td>16/9/92</td>
<td>(26/1/89)</td>
</tr>
<tr>
<td>57</td>
<td>NMB</td>
<td>North Melbourne Football Club</td>
<td>22/5/87</td>
<td>20/11/91</td>
<td>---</td>
</tr>
<tr>
<td>58</td>
<td>NPH</td>
<td>New Privateer Holdings</td>
<td>4/4/85</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>59</td>
<td>PAC</td>
<td>Pacific Agriculture</td>
<td>4/12/87</td>
<td>4/10/90</td>
<td>---</td>
</tr>
<tr>
<td>60</td>
<td>PAV</td>
<td>Pavilion (ex Sweetwater Drilling Co.)</td>
<td>1/5/86</td>
<td>9/92</td>
<td>(2/1/92)</td>
</tr>
<tr>
<td>61</td>
<td>PCN</td>
<td>Precision Measures</td>
<td>7/5/87</td>
<td>2/10/91</td>
<td>---</td>
</tr>
<tr>
<td>62</td>
<td>PDH</td>
<td>Precision Data Holdings (ex - CCT, Corporate Capital Ltd)</td>
<td>10/7/87</td>
<td>8/91</td>
<td>---</td>
</tr>
<tr>
<td>63</td>
<td>PFC</td>
<td>Pacific Capital</td>
<td>27/11/86</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>64</td>
<td>PPA</td>
<td>Plaspak Australia</td>
<td>1/5/87</td>
<td>10/4/91</td>
<td>(15/12/88)</td>
</tr>
<tr>
<td>65</td>
<td>PRB</td>
<td>Prentice Builders</td>
<td>15/5/87</td>
<td>31/8/88</td>
<td>(30/7/87)</td>
</tr>
<tr>
<td>66</td>
<td>PSB</td>
<td>Pro Sports Plaza Int.</td>
<td>25/9/87</td>
<td>6/92</td>
<td>---</td>
</tr>
<tr>
<td>67</td>
<td>PTH</td>
<td>Paper Technology International.</td>
<td>23/2/87</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>68</td>
<td>PVH</td>
<td>Provender Holdings</td>
<td>12/6/87</td>
<td>12/91</td>
<td>---</td>
</tr>
<tr>
<td>69</td>
<td>QLO</td>
<td>Qlone</td>
<td>13/12/85</td>
<td>20/12/89</td>
<td>---</td>
</tr>
<tr>
<td>No</td>
<td>ASX Code</td>
<td>Company Name</td>
<td>Listing Date</td>
<td>Delisting Date</td>
<td>ASX - Main Listing Date</td>
</tr>
<tr>
<td>----</td>
<td>----------</td>
<td>--------------</td>
<td>--------------</td>
<td>----------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>70</td>
<td>QUC</td>
<td>Quicksilver Connection</td>
<td>12/6/87</td>
<td>29/3/90</td>
<td></td>
</tr>
<tr>
<td>71</td>
<td>RAN</td>
<td>Rancoo (in liquidation)</td>
<td>12/2/87</td>
<td>1996</td>
<td>(2/1/92)</td>
</tr>
<tr>
<td>72</td>
<td>REL</td>
<td>Rendell Industries</td>
<td>27/6/86</td>
<td>31/8/88</td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>RGK</td>
<td>Rigil Kent</td>
<td>31/10/86</td>
<td>4/10/90</td>
<td></td>
</tr>
<tr>
<td>74</td>
<td>SAT</td>
<td>Saracenet Holdings (ex-Indoor Cricket)</td>
<td>7/3/86</td>
<td>20112189</td>
<td></td>
</tr>
<tr>
<td>75</td>
<td>SER</td>
<td>Security + Equity Resources</td>
<td>10/3/87</td>
<td>6/92</td>
<td></td>
</tr>
<tr>
<td>76</td>
<td>SHA</td>
<td>Shah Corporation</td>
<td>10/6/88</td>
<td>4/10/90</td>
<td></td>
</tr>
<tr>
<td>77</td>
<td>SHW</td>
<td>St. Hubert Wines (ex-Associated Liquor Merchants)</td>
<td>11/12/87</td>
<td>3/10/90</td>
<td>(171111/88)</td>
</tr>
<tr>
<td>78</td>
<td>SIE</td>
<td>Security + Equity Investments</td>
<td>12/12/86</td>
<td>6/92</td>
<td></td>
</tr>
<tr>
<td>79</td>
<td>SNR</td>
<td>Sentron</td>
<td>28/8/85</td>
<td>15/3/90</td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>SSI</td>
<td>Sino Securities</td>
<td>22/5/87</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>81</td>
<td>TBY</td>
<td>Toby Industries (ex - GEF, Gefo ltd) T.O. by Parbury</td>
<td>15/10/88</td>
<td>1995</td>
<td>(2/1/92)</td>
</tr>
<tr>
<td>82</td>
<td>TIP</td>
<td>Thermalife International (ex-Base Equity)</td>
<td>13/3/87</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>83</td>
<td>TPH</td>
<td>Technopproduct Holdings</td>
<td>19/6/87</td>
<td>14/11/90</td>
<td>(15112188)</td>
</tr>
<tr>
<td>84</td>
<td>UCG</td>
<td>United Computer Group</td>
<td>7/11/86</td>
<td>19/8/92</td>
<td>(21/12/89)</td>
</tr>
<tr>
<td>85</td>
<td>VAH</td>
<td>Valence Holdings</td>
<td>18/9/87</td>
<td>30/6/92</td>
<td></td>
</tr>
<tr>
<td>86</td>
<td>VCL</td>
<td>Vaucluse Holdings</td>
<td>18/3/88</td>
<td>6/9/90</td>
<td></td>
</tr>
<tr>
<td>87</td>
<td>VLI</td>
<td>Valet</td>
<td>23/3/86</td>
<td>10/91</td>
<td></td>
</tr>
<tr>
<td>88</td>
<td>WCO</td>
<td>WBCM Consultants</td>
<td>17/7/87</td>
<td>---</td>
<td>2/1/92</td>
</tr>
<tr>
<td>89</td>
<td>WSB</td>
<td>Western Biotechnology</td>
<td>24110/85</td>
<td>11/3/88</td>
<td></td>
</tr>
<tr>
<td>90</td>
<td>WVI</td>
<td>Waiviata International</td>
<td>10/1/86</td>
<td>---</td>
<td>2/1/92</td>
</tr>
</tbody>
</table>
Appendix 5

Survey participants

Appendix 5 contains details of twenty-seven ex Second Board companies, which were transferred to the Main Board on or before 30 June 1992 and which were still listed public companies on 1 January 1996. The company numbers correspond with the numbers in Appendix 4.

These companies were asked to participate in a survey.

Survey details are contained in Appendix 6: introductory letter and questionnaire.

The public companies which responded to the survey with a completed questionnaire were no's: 15, 26, 29, 33, 38, 40, 43, 67 and 80.
Those which responded without returning the questionnaire were no's: 10, 23, 37, 54 and 58.
NO. 3.

ASX CODE: AFD
COMPANY NAME: THE AUSTRALIAN FOOD GROUP LTD.
Previously known as: SEE SEEDCAP LIMITED.
Telephone: (03) 9 460-6588
Fax: (03) 9 462-1358

SHARE REGISTRY: Day Neilson Chartered Accountants.
200 Malop St., Geelong, Vic., 3220

CO. CONTACT: Attention: Mrs. Helen, Secretary.
AUDITORS: Day Neilson.
BANKERS: NAB
SOLICITORS: Mowbray Erdnast.
DIRECTORS: R.C. Smith (Chairman), R. Barker (CEO), D. Allison (Group Gen.), N.R. Keogh, B.A. Cutts.
SECRETARY: A.A. Appapillai.

PRINCIPAL ACTIVITIES: Equity investor manufacturing and distribution of ice cream products, the distribution of pasta products and the investment of its resources and provision of capital.

INCORPORATED: In Vic. on 22/05/86 as Seedcap Pty Ltd and converted to public status on 09/07/86. Second Board Listing on 29/05/87. Name changed to the Australian Food Group Ltd on 04/10/93.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY; Reminder call; did not respond.
NO. 8.

ASX CODE: ARP
COMPANY NAME: ARB CORPORATION LTD.

HEAD AND REGISTERED OFFICE: P.O.Box 202. Croydon 3136.
Telephone: (03) 9 762-7166

SHARE REGISTRY: K.P.M.G. Peat Marwick.
Telephone: (03) 9 288-5555

CO. CONTACT: E.A. Nicholls.
AUDITORS: Pitcher Partners.
BANKERS: C.B.A.
SOLICITORS: Minter Ellison Morries Fletcher.
SECRETARY: E.A. Nicholls.

PRINCIPAL ACTIVITIES: Automative Accessories.

INCORPORATED: In Vic. on 23/02/87. Second Board Listing on 26/06/87.
DELISTED: ---
ONGOING: Main Board Listing: 14/12/89.

SURVEY; Reminder call; did not respond.
NO. 10.

ASX CODE: ASK
COMPANY NAME: AMSKAN LIMITED.
HEAD AND REGISTERED OFFICE: Mail To:
20 Weerona Way, Warrandyte, Vic. 3113.

104 Ferntree Gully Rd., Oakleigh, Vic., 3166
Telephone: (03) 9 562-8044

SHARE REGISTRY: KPMG Peat Manvick.
161 Collins St. Melbourne, Vic., 3000.
Telephone: (03) 288-5555

CO. CONTACT: Christopher F. Thomas.
AUDITORS: KPMG Peat Manvick.
BANKERS: NAB
SOLICITORS: Freehill Hollingdale & Page.
DIRECTORS: LJ Bradley (chairman), RL Verrier (Managing), CF Thomas, DO Anderson, IN Ferrers, Sir L Froggatt, RB Ritchie.
SECRETARY: TW Parker.

PRINCIPAL ACTIVITIES: Development and marketing of data capture and information systems.

INCORPORATED: In Vic. on 18/05/82 as Edward Blue Pty Ltd. Name changed to Animal Management Systems Pty Ltd on 08/07/85. Conversion to Limited Liability status on 17/10/85 and name changed to Amskan Limited on 31/03/87. Second Board Listing on 05/06/87.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: In receivership early '96, did not respond.
NO. 15.

ASX CODE: BTA
COMPANY NAME: BIOTA HOLDINGS LIMITED.
HEAD AND REGISTERED OFFICE: 1601 Malvern Rd., Glen Iris, Vic., 3146.
Telephone: (03) 9 823-4418
Fax: (03) 9 885-4215

SHARE Registry: Coopers & Lybrand.
71 City Rd., South Melbourne, Vic., 3205.
Telephone: (03) 602-5688

CO. CONTACT: R.A. Wadley, Secr.
AUDITORS: Price Waterhouse.
BANKERS: Westpac.
SOLICITORS: Mallesons Stephen Jaques.
SECRETARY: R.A. Wadley.

PRINCIPAL ACTIVITIES: Research and development of biotechnology projects and pharmaceutical projects; investment.

INCORPORATED: In Vic. on 02/10/85 as Biota Hodings. Second Board Listing on 02112/85
DELISTED: —
ONGOING: Main Board Listing: 02101/92.

SURVEY: Returned completed questionnaire.
NO. 20,

ASX CODE:     CEQ
COMPANY NAME: CENTRAL EQUITY LTD.
HEAD AND REGISTERED OFFICE: Level 9.365 Queen St. Melbourne 3000.
                        Telephone:   (03) 9 600-0505
                        Fax:         (03) 9 670-1739

CO. CONTACT:     Mr. G.M.Otto (secr.).
AUDITORS:      Arthur Anderson.
BANKERS:       CBA, NAB.
SOLICITORS:    Minster Ellison Morris Fletcher.
DIRECTORS:     J.W. Bourke, D.J. Wilson, E. Kutner.
SECRETARY:     G.M. Otto.

PRINCIPAL ACTIVITIES: Property Development.

INCORPORATED:  In Vic. on 23/02/87. Melbourne Second Board Listing on 04/12/87.
                (After Hobart on 12/06/87).
DELISTED:       ---
ONGOING:       Main Board Listing: 13/10/88.
SURVEY:        Reminder call, did not respond.
NO. 23.

ASX CODE: CIR
COMPANY NAME: CIRCADIAN TECHNOLOGIES LIMITED.
HEAD OFFICE: 6-8 Wallace Avenue, Toorak, Vic. 3142.
(PO Box 23, Toorak, Vic., 3142).
Telephone: (03) 9 826-0399
Fax: (03) 9 824-0083

REGISTERED OFFICE: 6th Floor, 40 Market St., Melbourne, Vic., 3000.
Telephone: (03) 617-4617
Fax: (03) 617-4666

SHARE REGISTRY: Ernst & Young Registry Services Pty Ltd, Level 25.
120 Collins St., Melbourne, Vic., 3000.
(GPO Box 505H, Melbourne, Vic., 3001).

CO. CONTACT: (Just to the Company - only 3 people).
AUDITORS: Arthur Andersen.
BANKERS: Commonwealth.
SOLICITORS: Minter Ellison Morris Fletcher.
DIRECTORS: Sir Peter Derham (Chairman), L. Serry (Managing), I.R. Davis, R.L. Martin.
SECRETARY: B.F. Qude-Vrielink.

PRINCIPAL ACTIVITIES: Scientific research and investment in technology.

INCORPORATED: In Vic. on 17/10/84 as Circadian Pharmaceuticals Limited. Second Board Listing on 28/03/85. Name changed to Circadian Technologies Limited on 02/04/87.

DELISTED: ---
ONGOING: Maind Board Listing: 02/01/92.

SURVEY: Too small to respond accurately.
NO, 24

ASX CODE: CLD
COMPANY NAME: COLDSTREAM AUSTRALASIA LIMITED (INDUSTRIAL).
Previously Coldstream Winemakers Limited, 31/25/94).
HEAD AND REGISTERED OFFICE: Coldstream Hills, 31 Maddens Lane,
Coldstream, Vic, 3770.
Telephone: (059) 649-388
Fax: (059) 649-389
SHARE REGISTRY: KPMG Peat Marwick.
161 Collins St. Melbourne, Vic, 3000.

CO. CONTACT: Ms. Helen Wasylkiw.
AUDITORS: Coopers and Lybrand.
BANKERS: NAB.
SOLICITORS: Clyton Utz.
DIRECTORS: G.Harrison (Chairman), F.J. Halliday (Manageing), W.L. Beevers, D.C.
Brown, P.N. Dowell, D.J. Taig.
SECRETARY: Mr Helen Wasylkiw.

PRINCIPAL ACTIVITIES: 082, Alcohol + Tobacco, Growing of grapes, and the making
and sale of wine.

INCORPORATED: In Vic, on 18/09/87 as Coldstream Wine-makers Limited and name
changed to Coldstream Australasia Limited on 31/05/94. Second
Board Listing 29/01/88.
DELISTED: ---
ONGOING: Maind Board Listing: 02/01/92.
SURVEY: Reminder call, did not respond.
ASX CODE: CNC
COMPANY NAME: CHAMPION COMPRESSORS LIMITED.
   Telephone: (03) 9 796-4000
   Fax: (03) 9 796-4053

BRANCH OFFICES: Sydney, Brisbane, Adelaide and Perth.

SHARE REGISTRY: KPMG Peat Marwick, Level 4, KPMG House.
   161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: L.J. Simmons (Dir).
AUDITORS: KPMG Peat Marwick.
BANKERS: ANZ.
SOLICITORS: Minter Ellison Morris Fletcher.
DIRECTORS: J.L. Paterson (Chairman), G. Mussen (Managing), W.H.ST. Baker,
   A.C. Foster (Non-Exec.), C.K. Hall, L.J. Simmons.
SECRETARY: J.T. Van Rensburg.

PRINCIPAL ACTMTIES: Manufacture, sales and service of industrial and process and
   gas compressors, compressed air drying and air equipment,
   specialised pressure vessels and air line reticulation systems.
   Import, sales and service of construction and mining
   equipment.

INCORPORATED: In Vic. on 01/04/87 as Champion Compressors Limited. Second Board
   Listing on 29/05/87.
DELISTED: ---
ONGOING: Main board Listing: 02/01/92.
SURVEY: Returned completed questionnaire.
NO. 29.

ASX CODE:   CUC
COMPANY NAME:  CUC AUSTRALASIA LIMITED.
             Previously known as: PHM PHARMOL PACIFIC LIMITED.
HEAD OFFICE:  P.O.Box 346.
             Suite 2, 1st Floor, 559 Queensberry St., North Melbourne, 3051
             Telephone:  (03) 9 326-6177

REGISTERED OFFICE:  Challenge House, 85 The Terrace, Wellington, NZ.

SHARE REGISTRY:   KPMG Peat Marwick.
             161 Collins St., Melbourne, Vic., 3000.

NEW ZEALAND SHARE REGISTRY:  Computershare Registry Services.
             Auckland, NZ.

CO. CONTACT:  Mr. C.J. McKeown (Secr.)

AUDITORS:  Martin Jarvie Underwood & Hall (NZ).

BANKERS:  NAB, Bank of New Zealand.

SOLICITORS:  Minter Ellison (Aust), Rudd Watts & Stone (NZ).

DIRECTORS:  J.A. Nissan (Chairman), J.L. Vinson (Man. Dir.), C.J. McKeown, D.
             Vinson.

SECRETARY:  C.J. McKeown (Aust), R.D. Berry (NZ).

PRINCIPAL ACTIVITIES:  Homeshopping creditcard enhancements & electronic
             cataloguing & ordering.

INCORPORATED:  In New Zealand on 24/10/86 as Pharmol Pacific Pty Ltd. Converted to
             a public company on 31/12/86. Second Board Listing on 23/01/87.
             Name changed to CUC Australia Limited on 30/06/92 and to CUC
             Australasia Limited on 01/04/93.

DELISTED:  ---
ONGOING:  Main Board Listing: 02/01/92.

SURVEY:  Returned completed questionnaire.
NO. 33.

ASX CODE: DHB
COMPANY NAME: DREAM HAVEN BEDDING & FURNITURE LIMITED.

HEAD AND REGISTERED OFFICE AND SHARE REGISTRY:
   P.O.Box 260. Epping 3076.
   Telephone: (03) 9 408-7511

CO. CONTACT: Mr. T.J.Barton (secr.).
AUDITORS: Mann Judd.
BANKERS: Westpac.
SOLICITORS: Arthur Robinson & Heddevicks.
SECRETARY: T.J. Barton.

PRINCIPAL ACTIVITIES: Manufacture and distribution of bedding and bed settes, furniture and contract quilting.

INCORPORATED: In Vic on 27/06/78 as Glamorganshire Pty Ltd. Name changed on 01/11/78 to Dream Haven Bedding Co. Pty Ltd and to Dream Haven Bedding & Furniture Limited on 23/12/86. Second Board Listing on 01/05/87.

DELISTED: ---
ONGOING: Maind Board Listing: 02/01/92.

SURVEY: Returned completed questionnaire.
NO. 37.

ASX CODE: ETW
COMPANY NAME: ENTERTAINMENT WORLD LTD.
HEAD AND REGISTERED OFFICE: 9th Floor, 356 Collins St. Melbourne, 3000.
  Telephone: (03) 9 670-8110

SHARE REGISTRY: KPMG Peat Marwick, Level 4.
  161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. Bird (Man. Dir.).
AUDITORS: Coopers & Lybrand.
BANKERS: NAB.
SOLICITORS: Phillips Fox.
DIRECTORS: MN Banks, HA Hill, GC Wheatley.
SECRETARY: HA Hill.

PRINCIPAL ACTIVITIES: Artist management, record production and music publishing.

INCORPORATED: In Vic, on 07/12/83 as Warranilla Nomines Pty Ltd. Name changed to Corporate Data Services Pty Ltd on 15/07/84. Converted to a public company on 21/11/85. Name changed to Two Australia Limited on 24/01/90. (Second Board Listing on 04/07/86). Name Changed to Entertainment World on 10/8/94.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Reminder call; called back: no one left to answer accurately.
  Mr. David Bird suggested a tax system change is needed.
NO. 38.

ASX CODE: EXI
COMPANY NAME: EXICOM.
previously known as: DEQUAH LTD.
HEAD AND REGISTERED OFFICE: Level 2, 44-46 Mandarin St. Villawood, NSW 2163.
Telephone: (02) 724-8111

CO. CONTACT: P.R. Patterson.
AUDITORS: Deloitte Touche Thomatsu.
BANKERS: CBA.
SOLICITORS: ---
SECRETARY: P.R. Patterson.

PRINCIPAL ACTIVITIES: Electrical/Electronic industrials.

INCORPORATED: In Vic. on 20/10/86. Second Board Listing on 13/02/87.
DELISTED: ---
ONGOING: Main Board Listing: 10/12/87.

SURVEY: Returned completed questionnaire.
NO. 39.

ASX CODE: GCG
COMPANY NAME: GREENFIELDS COAL COMPANY LTD.
HEAD OFFICE: 9th Floor, 356 Collins St., Melbourne, Vic., 3000.
(P.O. Box 257, Market St., Post Office, Melbourne, Vic., 3000).
Telephone: (03) 9 642-5900
Fax: (03) 9 642-5905

SHARE REGISTRY: KPMG Peat Marwick.
161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. N.S. Manthorpe (Secr.).
AUDITORS: Coopers & Lybrand.
BANKERS: ANZ.
SOLICITORS: G.A. Menzies.
DIRECTORS: L.J. Smyth (Chairman), D.E. Bird (Managing Dir.), G.A. Menzies.
SECRETARY: N.S. Manthorpe.

PRINCIPAL ACTIVITIES: Investment in listed and unlisted companies and maintenance of the group's exploration interests.

INCORPORATED: In Vic. on 26/03/86 as Shared Investments Limited. Second Board Listing on 26/06/87. Name changed to Strategic Industry Investments Ltd on 26/05/94. Name changed to Greenfields Coal Company Ltd on 06/12/95.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Reminder call, did not respond.
NO. 40.

ASX CODE: GFI
COMPANY NAME: GILLIES FOOD INDUSTRIES LIMITED.
HEAD OFFICE: 131 Garsed St., (PO Box 222), Bendigo, Vic., 3550.
Telephone: (054) 43-9533
Fax: (054) 43-9101

REGISTERED OFFICE: Andrew Frewin Richmond Pty Ltd.
61-65 Bull St., (PO Box 454), Bendigo, Vic., 3550.
Telephone: (054) 43-0344
Fax: (054) 43-5304

SHARE REGISTRY: KPMG Peat Marwick, Level 4.
KPMG House, 161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. B.V. Frewin (Secr.).
AUDITORS: Deloitte Touche Tohmatsu.
BANKERS: Westpac.
DIRECTORS: L.G. Gillies (Chairman), S.A. Gillies (Chief Exec.), B.V. Frewin,
W.L. Gillies (Sales & Distribution), R.O. Johnson, G.J. McMaster,
A. Dusting (Operation Mgr).
SECRETARY: B.V. Frewin. [Ph: (054) 43-0334].

PRINCIPAL ACTIVITIES: Manufacture and distribution by wholesale and retail of pies, pasties, cakes and pastries.

INCORPORATED: In Vic. on 07/06/85 as Gillies Food Industries Limitd. Second Board Listing on 15/08/85.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Returned completed questionnaire.
NO. 42.

ASX CODE: GRI
COMPANY NAME: GREENCHIP INVESTMENTS LIMITED.
Previously known as: SBP SECOND BOARD PACIFIC LIMITED.

HEAD AND REGISTERED OFFICE: Level 15.
600 Bourke St., Melbourne, Vic., 3000.
Telephone: (03) 9 289-9200
Fax: (03) 9 289-9222

SHARE REGISTRY: KPMG Peat Marwick, Level 1.
161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. C. Wilson.
AUDITORS: KPMG Peat Marwick.
BANKERS: CBA.
SOLICITORS: Minter Ellison Morris Fletcher.
SECRETARY: M.R. Garbutt.

PRINCIPAL ACTIVITIES: Investment in the small to medium size listed companies making up the greenchip sector.

INCORPORATED: In Vic. on 14/10/86 as Second Board Pacific Limited. Name changed to Greenchip Investments Limited on 23/08/91. Second Board Listing on 19/12/86.

DELISTED: ---
ONGOING: Main Board Listing: 28/11/91.

SURVEY: Reminder call, did not respond.
ASX CODE: HCO
COMPANY NAME: HUDSON CONWAY LTD.
HEAD AND REGISTERED OFFICE: Hudson Conway House.
311 Glenferrie Rd. Malvern, 3144.
Telephone: (03) 9 823-6111
Fax: (03) 9 823-6101

CO. CONTACT: B.J. Hamilton.
AUDITORS: KPMG Peat Marwick.
BANKERS: ANZ.
SOLICITORS: Corrs Chambers Westgarth.
SECRETARY: B.J. Hamilton.

PRINCIPAL ACTIVITIES: Property Investment and Casino Operator.

INCORPORATED: In Tasmania on 07/05/86 as Austr. Asset Man’t, Name changed on 8/10/87. Hobart Second Board Listing on 11/07/86. Melbourne Second Board Listing on 01/08/86.

DELISTED: ---
ONGOING: ASX Main Board Listing: 16/04/87.

SURVEY: Returned completed questionnaire.
NO. 44.

ASX CODE: HMT
COMPANY NAME: HEINE MANAGEMENT.
HEAD AND REGISTERED OFFICE: Level 9, 11 Queens Rd. Melbourne, 3000.
Telephone: (03) 9 869-4500
Fax: (03) 9 867-3015

CO. CONTACT: Mr. B. Freeman.
AUDITORS: Hughes Fincher.
BANKERS: ANZ.
SOLICITORS: Mallesons; Arhold Bloch Leibler.
SECRETARY: B. Freeman.

PRINCIPAL ACTIVITIES: Fin. Services and property Management.

INCORPORATED: In Vic. on 23/09/85 ad Curryelon Pty Ltd, Name changed to Eurolynx on 31/07/86 and current name on 14/11/94. Second Board Listing on 29/08/86.

DELISTED: ---
ONGOING: Main Board Listing: 23/07/87.

SURVEY: Reminder call, did not respond.
ASX CODE: IDT
COMPANY NAME: INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED.
HEAD AND REGISTERED OFFICE: 45 Wadhurst Drive, Boronia, Vic., 3155.
Telephone: (03) 9 801-8888
Fax: (03) 9 801-8773
Telex: AA 31384 IDTBOR
SYDNEY OFFICE: Pharmacy House, 82 Christie St., StLeonards, NSW, 2065.
Telephone: (02) 906-3455
Facsimile: (02) 906-7957
SHARE REGISTRY: Coopers & Lybrand.
71 City Rd., South Melbourne, Vic., 3205.
CO. CONTACT: G.L. Blackman (Ch + M D).
AUDITORS: Coopers & Lybrand.
BANKERS: NAB.
SOLICITORS: J.A.W. Guthrie.
DIRECTORS: G.L. Blackman (Chairman & Managing), J. Defing (Mgr, Biomedicus Division), S. Lanning (Business Development Mgr), R. Thomas (Production Mgr), A.D. Blackman, R. Burnet, R.R. Green, P.G. Hinnerberg.
SECRETARY: R. Burnet.

PRINCIPAL ACTIVITIES: Research, development and other technical services for the pharmaceutical and allied industries.

INCORPORATED: In Vic. on 11/02/86 as Sixth Comet Pty Ltd; Name changed to Institute of Drug Technology (Aust) Pty Ltd on 19/03/86. On 19/05/87 name changed to Institute of Drug Technology Australia Limited and changed to public status. Second Board Listing on 12/02/88.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.
SURVEY: Reminder call; sent 2d Q.; did not respond.
ASX CODE: LEV
COMPANY NAME: LEMVEST LIMITED.
HEAD AND REGISTERED OFFICE AND SHARE REGISTRY:
1st Floor, Holland House, 492 St., Kilda Rd., Melbourne, 3004.
Telephone: (03) 9 820-2030
Fax: (03) 9 820-2038

CO. CONTACT: S.L. Mason (Secr.).
AUDITORS: Duesburys.
BANKERS: ANZ, Malayan Banking Berhad, Algemene Bank Nedelrand N.V.
SOLICITORS: Sly & Weigall.
DIRECTORS: EB Noxon (Chairman & Group Chief Exec.), Manfred Spunt (Man.
SECRETARY: SL Mason.

PRINCIPAL ACTIVITIES: Manufacture of electronic and electrical components and
investment. Equity investor.

INCORPORATED: In Vic. on 30/01/87 and was converted to public status on 23/04/87.
Second Board Listing on 31/07/87.
DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Reminder call, did not respond.
ASX CODE: MAP
COMPANY NAME: M. ASIA PACIFIC INVESTMENTS LTD.
   Previously known as: JUST AUSTRALIA CHINA HOLDINGS LIMITED; JUS JUST SHANGHAI LIMITED.
   P.O.Box 626. Bayswater 3153.
   Telephone: (03) 9 720-7886
   Telephone: (02) 233-2400
   Fax: (02) 233-1393
SHARE REGISTRY: Coopers & Lybrand.
   Southbank Terrace, City Rd., South Melbourne, Vic., 3205.
CO. CONTACT: Mr. K. Campbell (Chief Fin. Off.).
AUDITORS: Coopers & Lybrand.
BANKERS: ANZ.
DIRECTORS: PR Just (Chairman & Chief Exec.), RA Milne, DJ Dong, QY Li,
   CG Woodard.
SECRETARY: F. Bagnati.
PRINCIPAL ACTIVITIES: Equity Investor.
INCORPORATED: In Vic. on 22/08/86 as Just Shanghai Limited. Second Board Listing on 08/05/87. Name changed to Just Australia China Holdings Limited on 08/05/89. Name changed to M. Asia Pacific Investments on 05/09/95.
DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.
SURVEY: Reminder call: did not know enough to answer accurately.
NO. 58.

ASX CODE: NPH
COMPANY NAME: NEW PRIVATEER HOLDINGS LIMITED (INDUSTRIAL).
HEAD AND REGISTERED OFFICE: 1st Floor 43 Hardware St. Melbourne, Vic, 3000.
P.O. Box 68B, Melbourne, Vic, 3001.
Telephone: (03) 9 670-8666
Fax: (03) 9 670-8553

SHARE REGISTRY: Deloitte Touche Thomatsu.
Level 9,600 Bourke St, Melbourne, Vic, 3000.
Telephone: (03) 9 602-0622
Fax: (03) 9 602-0825

CO. CONTACT: I.L.Murray (Secr.).
AUDITORS: Deloitte Touche Tohmatsu.
BANKERS: CBA.
SOLICITORS: Blake Dawson Waldron.
SECRETARY: I.L.Murray.

PRINCIPAL ACTIVITIES: Investment.


DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Returned blank questionnaire, too small.
NO. 63.

ASX CODE: PFC
COMPANY NAME: PACIFIC CAPITAL LIMITED.
HEAD AND REGISTERED OFFICE: 11th Floor, 28 St., Georges Terrace, Perth, WA, 6000
Telephone: (09) 221-3722
Fax: (09) 221-3477

SHARE REGISTRY: KPMG Peat Marwick.
161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. P.J. Lyons.
AUDITORS: Barwick Partners.
BANKERS: Challenge.
SOLICITORS: Blake Dawson Waldron, Clayton Utz.
DIRECTORS: P.J. Lyons (Chairman), Dato R.B. Hamzah, V.C. Morley, G. Ongarezos.
SECRETARY: P.J. Lyons.

PRINCIPAL ACTIVITIES: Investment, real estate development and establishment of marble quarrying activities.

INCORPORATED: In Vic. on 03/10/86 as Pacific Capital. Second Board Listing on 27/11/86.

DELISTED: --
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Did not respond.
ASX CODE: PTH
COMPANY NAME: PAPER TECHNOLOGY INTERNATIONAL LIMITED.
HEAD OFFICE: C/O Minter Ellison, Morris Fletcher.
40 Market St. Melbourne 3000.
Telephone: (03) 9 553-1466
Fax: (03) 9 553-0773

SHARE REGISTRY: KPMG Peat Marwick, Level 1.
161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. D.I. Clarke, (Secr.).
AUDITORS: Pannell Kerr Forster.
BANKERS: Westpac.
SOLICITORS: Minter Ellison Morris Fletcher.
DIRECTORS: I.R. Davis (Chairman), P.A. Bancroft (Managing), H. Eisen, N.K. Rogers
SECRETARY: D.I. Clarke. [Telephone: (03) 9 617-4617, Minter Ellison Morris Fletcher].

PRINCIPAL ACTIVITIES: Production of paper products and manufacture of machinery for production of paper products; development of new products and machinery for production of such products.

INCORPORATED: In Vic, on 23/02/87 as Academy Holdings Limited and name changed to Paper Technology International Limited on 08/03/88. Second Board Listing on 23/02/87.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Returned completed questionnaire.
NO. 80.

ASX CODE: SSI
COMPANY NAME: SINO SECURITIES INTERNATIONAL LIMITED.
HEAD AND REGISTERED OFFICE: Level 3.
43-51 Queen St., Melbourne, Vic., 3000.
Telephone: (03) 9 629-6615
Fax: (03) 9 614-1946
Telex: AA 154500

HONG KONG OFFICE: C/- M.B. Lee & Co., Certified Public Accountants, United Centre.
15th Floor, 95 Queens Way, Hong Kong.

SHARE REGISTRY: KPMG Peat Marwick, Level 4.
161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. D. Julien (Res. Man.).
AUDITORS: Duesburys.
BANKERS: National Australia Bank Ltd.
SOLICITORS: Phillips Fox.
DIRECTORS: R. Li (Managing Dir.), P.J. Adams (Fin, & Admin.), S. Aw Sian, M.B. Lee, B. Mathieson.
SECRETARY: P.J. Adams.

PRINCIPAL ACTIVITIES: Investments services in banking securities and property, joint ventures, capital raisings and fund managment.

INCORPORATED: In Vic. on 08/08/86 as Sino Securities International Limited. Second Board Listing on 22/05/87.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Returned completed questionnaire.
ASX CODE: TIP
COMPANY NAME: THERMALIFE INTERNATIONAL PHARMACEUTICALS LIMITED
HEAD AND REGISTERED OFFICE: Suite 5, 284 Oxford St., Leederville, WA, 6007
Telephone: (09) 242-2999
Fax: (09) 443-2859

168 Adelaide Terrace, Perth, WA, 6151
Telephone: (09) 221-4200

CO. CONTACT: Mr. J. Palermo.
AUDITORS: Ernst & Young.
BANKERS: Westpac.
SOLICITORS: IRDI & Associates.
SECRETARY: J. Palermo.

PRINCIPAL ACTIVITIES: Production and sale of pharmaceutical products derived from patents held by the economic entity which cover pharmaceutical processes.

INCORPORATED: In Vic, on 29/09/86 as Merela Pty Ltd. Converted to a public company and name changed to Base Equity Limited on 17/10/86 and to Thermalife International Pharmaceuticals Limited on 29/12/87. Second Board Listing on 13/3/87.

DELISTED: --

ONGOING: Main Board Listing: 2/1/92.

SURVEY: Did not respond.
NO. 88.

ASX CODE: WCO
COMPANY NAME: WBCM CONSULTANTS LIMITED.
HEAD AND REGISTERED OFFICE: 71 Palmerston Crescent, (PO Box 243), South Melbourne, Vic., 3205.
Telephone: (03) 9 699-3688
Fax: (03) 9 690-9461

SHARE REGISTRY: KPMG Peat Marwick.
4th Floor, 161 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mr. R. Mitchell (Dep. Chariman).
AUDITORS: KPMG Peat Marwick.
BANKERS: NAB.
SOLICITORS: Herbert Geer & Rundle.
SECRETARY: R.J. Dagg.

PRINCIPAL ACTIVITIES: Professional consultancy engineering, surveying and town planning practice and allied disciplines.

INCORPORATED: In Vic. on 16/10/86 as WBCM Consultants Limited. Second Board Listing on 17/07/87.

DELISTED: ---
ONGOING: Main Board Listing: 02/01/92.

SURVEY: Reminder call, did not respond.
ASX CODE: WVI
COMPANY NAME: WAIVIATA INTERNATIONAL LIMITED.
Telephone: (03) 9 866-4581
Fax: (03) 9 867-2617

SALES OFFICES: Hong Kong, Switzerland, Singapore.

SHARE REGISTRY: Ernst & Young Registry Services Pty Ltd.
120 Collins St., Melbourne, Vic., 3000.

CO. CONTACT: Mrs. Lucy Rosamilia (Acc.).

AUDITORS: Boyar & Lazar.

BANKERS: Hingkong Bank of Australia, NAB, The Hon Kong and Shanghai Banking corporation Limited, Credit Suisse.

SOLICITORS: Malleson Stephen Jaques.

DIRECTORS: P.M. Clark (Chairman), N. Nissen (Managing), G. Gold (Editor), D. Nikas (Art. Dir.), Dr. M. Nissen, B.R. Andrew.

SECRETARY: B.R. Andrew.

PRINCIPAL ACTMTIES: Production and distribution of tourist publications.

INCORPORATED: In Vic. on 26/05/82 as Thirteenth Butterfly Pty Limited, name changed to Waiviata International Pty Limited on 21/06/82, conversion to public status 29/08/85. Second Board Listing on 10/01/86.

DELISTED: ---

ONGOING: Main Board Listing: 02/01/92.

SURVEY Reminder call; sent 2d Q., did not respond.
Appendix 6

Survey

This appendix contains:

• the letter of introduction to the survey

• the questionnaire
Dear

The enclosed questionnaire forms part of my Master Degree thesis, Swinburne University of Technology, and I would appreciate your co-operation in providing some information.

More than ten years ago, in response to pressures to create easier access for new businesses to (venture) capital, the Melbourne Stock Exchange established the Second Board Stock Market. Its favourable listing rules and regulations attracted about 90 new listings between 1984 - 1992, when the Second Board closed. Some companies transferred to the Main Board and flourished while others did not do so well.

Although this initially highly successful source of capital was (prematurely?) cut off, all interested parties, including Governments, agree that lack of financial resources forms a key obstacle to new ventures/businesses being established in Australia.

By obtaining an insight and understanding of the experience of so-called "Second Boarders", via this survey, it may be possible to focus on those factors identified as enhancing the success of new businesses.

As the number of accessible "Second Boarders" is extremely small, the validity of the findings depends very much on your participation and it would be very much appreciated if replies were returned by 19 February 1996 to:

Ms Anja Diemont-Ebes
Centre for Innovation & Enterprise
Swinburne University of Technology
PO Box 218 (Mail 82)
Hawthorn Vic 3122.

In anticipation, I thank you very much for your consideration.

Yours faithfully

Ms ANJA DIEMONT-EBES
"SECOND BOARDERS"
QUESTIONNAIRE

Company Name: .................................................................

Care of: ...........................................................................

Address: ...........................................................................
...............................................................................

Contact Name: ......................................................................

The completion of this questionnaire
is greatly appreciated.

You could expect this to take about
15 minutes.

On completion, please return it to:
Ms. Anja Diemont - Ebes. (Research student)
School of Management
Centre for Innovation and Enterprise
Swinburne University of Technology
PO Box 218 - Mail 82.
Hawthorn, Vic., 3122

If you have any questions, please phone: Anja
(03) 9 866 2394
We want to know more about the business at the time of listing on the Second Board.

AT THE TIME OF LISTING ON THE SECOND BOARD:

Q1. How long was the business established?
   (Please tick one box)
   - 0 - 2 years
   - 3 - 4 years
   - over 5 years

Q2. Using the list below, which ONE industry best describes the business (These are Australian Standard Industry Code categories)
   - Agriculture
   - Manufacturing
   - Construction
   - Wholesale Trade
   - Retail Trade
   - Transport + Storage
   - Communication Service
   - Finance, Insurance, Property Service
   - Cultural, Recreational Service
   - Personal, Other Service
   - Other (Please specify):

Q3. Defining "NEW VENTURE" as a genuinely new enterprise, which products / processes / services are based on an "INNOVATION" (something new or different), please describe the nature of the business' innovation:
Q4. What was considered to be the business' competitive advantage?

(Please tick up to 3 boxes)

☐ Cost/Price Advantage  ☐ Access to Suppliers
☐ Technology  ☐ Proximity to Customers
☐ Unique Product  ☐ Marketing
☐ Product Design  ☐ After - Sales Service
☐ Production Capability  ☐ Delivery Times
☐ Quality  ☐ Other (Please specify):

We want to understand the reasons for listing on the Second Board Stock Market.

Q5. How would you evaluate listing on the Second Board Stock Market compared to a traditional borrowing process (eg. Banks)?

<table>
<thead>
<tr>
<th>Factors</th>
<th>Less (than)</th>
<th>About the same</th>
<th>More (than)</th>
<th>Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Complexity (Legal advice, Info. Required, etc)</td>
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<tr>
<td>(b) Amount of Capital Funds obtained</td>
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<tr>
<td>(c) Cost (incl. time of key personnel)</td>
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<td>(d) Total time period involved (to access funds)</td>
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<td>(e) Availability of future funds</td>
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<tr>
<td>(f) Restrictions placed on owners/managers of business</td>
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</tbody>
</table>
Q6. The capital raised by the listing on the Second Board was used for ONE of the following 5 development stages.

1. Research + Development (Seed capital)

2. Commercialisation 1:
   completion of proto type, marketing studies, management team; ready to do business.

3. Commercialisation 2:
   Commencement of full scale manufacturing, increase in sales/inventory; no profit yet.

4. Commercialisation 3:
   Profitable operations, increasing sales, need for expansion.

5. Maturity:
   May consider Main Board Stock Market listing, major expansion, acquisition, merger or take-over.

Q7. Funds were apportioned in the following way:

<table>
<thead>
<tr>
<th></th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Research + Development</td>
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<tr>
<td>Debt Retirement</td>
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<tr>
<td>Increased Inventory holdings</td>
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<tr>
<td>Capital expenditure</td>
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<tr>
<td>(eg. Plant, equipment, vehicles)</td>
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<tr>
<td>Marketing</td>
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<td>Acquisition</td>
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<tr>
<td>Other:</td>
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</table>

Total 100%
Q8. In terms of business management strengths and weaknesses, how would you have rated the followings factors (at the time of listing)?

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very Weak</th>
<th>Weak</th>
<th>Satisfactory</th>
<th>Strong</th>
<th>Very Strong</th>
<th>Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Technical know-how</td>
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<td>(b) Financial management (eg. Financial analysis, debt management)</td>
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<td>(c) Access to distribution networks</td>
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<td>(d) Access to capital funds</td>
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<td>(e) Proven strategic planning and measurement abilities</td>
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<td>(f) Marketing and sales management skills</td>
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<td>(g) Access to markets (incl. Governments)</td>
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<td>(h) Other: ..................... ................................................</td>
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</table>

Q9. If applicable, please describe the effect of the Second Board closure on the business.

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Q10. What were the THREE main factors contributing to the business' SUCCESS

1. .......................................................................................................................................... 
2. .......................................................................................................................................... 
3. .......................................................................................................................................... 

160
Q11. How would you rate the importance of the following government initiatives to enhance the successful operation of (new) businesses?

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<tr>
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</thead>
<tbody>
<tr>
<td>1 Direct Gov. Involvement (through equity/debt funding) in R+D and commercialisation.</td>
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<td>2 Stimulation through incentives (eg. tax, grants) of R+D+C</td>
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<td>3 Provision of access to funds through regulation of Banks, Fin. Institutions.</td>
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<td>4 Provision of access to funds through Australian Stock Exchange, under special listing + control regulations.</td>
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<tr>
<td>5 Provision of access to funds through Networking: matching private investors with new businesses.</td>
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<td>6 Comprehensive Research into needs of new/small/medium businesses, in order to develop appropriate support schemes.</td>
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<td>7 Improved and expanded training facilities.</td>
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<td>8 Access to better business information.</td>
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<td>9 Reduction in costs of Gov. Licences, regulations, fees + charges.</td>
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<td>10 Enhanced role by Gov. Authorities in the delivery of support programs (eg. SBCD, NIES).</td>
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<td>11 Other: ........................................................................................................................................................................................................</td>
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<tr>
<td>12 Other ........................................................................................................................................................................................................</td>
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</tbody>
</table>
Q12. Would you go public, if you could make that decision again?

(Please tick one box)

☐ Yes  ☐ No  ☐ Do not know

Q13. Any other relevant comments would be appreciated.

..............................................................................................................................
..............................................................................................................................
..............................................................................................................................
..............................................................................................................................

THANK YOU.

Anja Diemont - Ebes.
BIBLIOGRAPHY

Section I - All bibliographical documents, except those pertaining only to Chapter 4, which are listed in Section II.

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Quinn, J.B. 1985, 'Managing innovation: controlled chaos', Harvard Business Review,
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success', Sloan Management Review, Massachusetts Institute of Technology,
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Shane, S.A. 1992, 'Why do some societies invest more than others', Journal of
Business Venturing, No. 7, The Wharton School of the University of Pennsylvania,
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