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BY HAND

30 October 2007

Corporate Communications Department
Re: Consultation Paper on GEM
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Your Ref:
Our Ref:
Direct Dial: [redacted]

Dear Sirs

Consultation Paper on the Growth Enterprise Market (the "Consultation Paper")

We are instructed by the companies whose names appear in the Schedule to this letter (the "Group") to respond to the proposals for the further development of GEM set out in the Consultation Paper.

The Group would firstly like to express its disappointment that the Exchange has rejected the AIM model option for GEM, which it asked the market to consider in its January 2006 GEM Discussion Paper and which was favoured by the majority of respondents to the Discussion Paper, including the Group. This is particularly so given the questionable reasons given by the Exchange for that decision. The Consultation Paper points to the Hong Kong market's greater retail component as necessitating a more active role to be played by the regulators. However, it is only in the last few years that significant numbers of AIM shares have been held by institutional investors. AIM was originally conceived as a retail market and offered tax concessions to individual investors buying AIM-listed stocks. In 2003, the proportion of AIM shares owned by institutions was just 35%.[1] Nor does there appear to be any evidence that Hong Kong's sponsors (i.e. those licensed as sponsors under the new regime) would not be able to perform a role similar to that performed by nomads on AIM.

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[1] "Welcome to AIM: A closer look": an independent supplement from Mediaplanet in association with the London Stock Exchange which appears on the AIM website.

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As a general comment, the Group does not consider that the Consultation Paper's proposals for repositioning GEM as a second board will make GEM a sufficiently attractive alternative to London's AIM market. It thus fears that the new proposals for GEM will fail to stem the tide of local and PRC companies listing on AIM and fail to attract significant numbers of other issuers from the region to list on GEM. We also note that an increasing number of issuers, which logically should have listed in Hong Kong, have chosen Singapore instead. This is of particular concern given the fact that there has reportedly only been one new listing on GEM in 2007 and only HK$12.6 billion raised on GEM in the first nine months, compared with £13.08 billion (approximately HK$208 billion) raised and 217 new listings on AIM in the same period.

Q1. Do you agree with, or have any suggested modifications to, the following proposed admission requirements for GEM:

(a) Positive operating cash flow from operating activities of HK$20 million in aggregate for the latest two financial years?

This represents a radical departure by not allowing start-up companies access to the market. In the absence of specific exemptions, the proposals would effectively prevent the listing of biotech, mineral and infrastructure companies.

If GEM is not willing to accommodate start-ups, the Exchange should encourage the SFC to set up a third AIM style market to cater for such companies.

(b) The latest two financial years under substantially the same management?

This is not necessary. The more important criterion is the experience of management in managing businesses relevant to the proposed issuer rather than the time spent managing a particular issuer.

(c) Market capitalisation of at least HK$100 million?

We wonder whether this is really necessary and whether market capitalisation should instead be left to be determined by the market.

(d) Public float of at least HK$30 million and 25% (or 15%-25% if the issuer has a market capitalisation of more than HK$10 billion)?

Again we would query whether this is not better left for the market to determine.

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(e) **Ownership continuity and control for the most recent financial year?**

Agree.

(f) **A minimum of 100 public shareholders?**

The Group's view is that the question of how widely the shares should be placed should be entirely for determination by the issuer and its sponsor.

(g) **Retaining the present free choice on offering mechanism and underwriting?**

Agree.

(h) **Retaining the requirement for a sponsor?**

Agree.

(i) **Reporting on achievement of business objectives in first two annual reports after listing?**

Agree, but we do not find this particularly helpful.

(j) **Keeping the requirement for GEM issuers to retain a compliance adviser (until after the dispatch of the annual report for the second full financial year after listing)?**

Agree.

(k) **Reduction of the bar on fundamental changes in business activity by one year, i.e. from two years after listing to one year?**

Agree.

Q2. Do you agree that GEM listing applications should be approved by the Listing Division on its own, without the involvement of the Listing Committee?

The Group agrees with this proposal if it will speed up the process of obtaining listing

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approval. It would comment however that delays have tended to arise at the Listing Division level rather than at the Listing Committee level. If the proposal is implemented, it will be necessary to ensure that the Listing Division has the ability to make executive decisions and that there is a quick and ready process for appeal to the Listing Committee.

Q3. Do you have any suggestions on further streamlining the new admission process for GEM?

Emphasis should be given to improving and shortening the Listing Division's vetting process. If there can be more predictability in the listing process and its timing and a reduction of costs, this should attract more companies to list on GEM.

Q4. Do you agree with the proposed revised continuing obligations for GEM?

We have no objection to the specific proposals. As a general comment, however, we consider that the costs of compliance with the GEM continuing obligations (which are now virtually identical to those of the Main Board) will be a further disincentive for small and medium-sized enterprises to list on GEM.

Q5. Do you agree that existing GEM issuers should be required to comply with the proposed revised continuing obligations (except the public float requirement) immediately? Is the proposed three-year "grace period" for complying with the public float requirement appropriate?

Existing GEM issuers should be given longer to comply with the public float requirement. The difficulty with this proposal for existing issuers is that it will oblige them to raise new capital which they may not necessarily need or be able to obtain.

Q6. Transfer from GEM to Main Board.

(a) Do you agree with the following criteria for transfer of listing from GEM to the Main Board: (i) meeting Main Board admission requirements; (ii) listing status on GEM for two years; (iii) no material rule breaches for two preceding years?

If a GEM listed company can meet the Main Board admission requirements, it should be automatically entitled to transfer. There should be no additional requirement for it to have been listed on GEM for 2 years.

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(b) **Do you agree that the process for transfer of qualified companies from GEM to the Main Board should be streamlined?**

Agree.

(c) **Do you agree that the process of transfer should be treated as an announcement by the issuer, to be pre-vetted and approved by SEHK's Listing Committee?**

Agree. The Group would welcome further clarification as to the "other required forms" referred to in paragraph 104 of the Consultation Paper which will need to be submitted. Provided that there is no requirement for production of a full prospectus, the Group is in favour of effecting transfers to the Main Board by way of a pre-vetted and approved announcement.

(d) **Should HKEx require confirmation by a licensed financial adviser of the company's compliance with Main Board admission requirements (such as shareholder spread) where such compliance is not evident from already-published information? Or should HKEx seek to rely directly upon the assurances of the directors?**

The Group agrees with the point made at paragraph 103 of the Consultation Paper, namely that a requirement for a financial adviser to confirm compliance with admission requirements (such as shareholder spread) for which publicly disclosed information is not available, might add little value if the financial adviser will have to rely on the work of the company's directors in order to give that confirmation. As stated in the Consultation Paper, this would be the case for a confirmation of shareholder spread, for which the financial adviser would need to rely on the directors' investigation of shareholdings under section 329 of the Securities and Futures Ordinance. In such cases, HKEx should rely directly on assurances given by the directors.

(e) **Do you have any other suggestions in respect of the transfer process?**

No.

Q7. Do you agree that the Main Board and GEM Listing Rules should eventually be merged into a single rule book?

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We don't consider that this really matters, so long as the rule book does not become too unwieldy. To all intents and purposes the rules are identical, except in respect of the rules relating to eligibility.

Q8. Do you have any other comments or suggestions on the further development of GEM as a second board?

The most important issues are to make the listing on GEM an attractive alternative to local and regional issuers: at present it is not. This will require the process of listing on GEM to be quicker and more cost effective, predictable and accessible.

A major weakness of GEM is that it is being presented as a junior market rather than an alternative market which has its own attractions. GEM is seen by many medium sized companies as a sensible alternative to the Main Board rather than a stepping stone towards a Main Board listing.

Moreover the Group would also question whether the regulatory approach of GEM and the Main Board should be the same, which was not the original objective.

A further issue which the Group would like the Exchange to consider is the introduction of a requirement for GEM companies to commission a long form accountants' report prior to listing. While there is no actual regulatory requirement, it is the practice on London's AIM market for the reporting accountants to prepare a long form report. The Group considers that a long form report should be mandatory for companies listing on GEM. This would not be a public document but would be submitted to the Exchange. The areas to be covered in the long form report could be included in a Practice Note.

Yours faithfully

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CHARLTONS

SCHEDULE

Anglo Chinese Corporate Finance, Limited

Quam Limited

Somerley Limited

Taifook Capital Limited