

30 October 2007

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

**By Hand and
By Fax (852) 2524 0149**

To Whom It May Concern,

With reference to the "Consultation paper on the Growth Enterprise Market" published in July 2007 by Hong Kong Exchanges and Clearing Limited ("HKEx"), Deloitte & Touche Corporate Finance Limited, as a market participant in Hong Kong, would like to express our comments in relation to the key consultation questions regarding the reform of the GEM as follows.

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?

Yes. Generally speaking, operating cash flow is more difficult to be maneuvered than net profit; it serves as a better indicator to reflect not only the "growth potential", but the "substance" of the applicant. The Stock Exchange can therefore enhance the quality of the applicants applying for admission on the GEM Board.

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

Yes. Management continuity is an important factor contributing to the stability of the business. Moreover, the continuity of senior management of the applicant should also be considered together with the board composition.

- (c) Market capitalization of at least HK\$100 million?

Yes. A market capitalization of HK\$100 million represents a price earning ratio of 10 (assuming the operating cash flow generated annually is close to the profit of the company, and the HK\$20 million operating cash flow, per the requirement in Q1a, is split evenly over two years), which is in line with that of the Main Board (i.e. net profit of HK\$20 million for most recent year & minimum market capitalization of HK\$200 million). Furthermore, higher market capitalization implicates better earnings potential of the applicants.

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

While the minimum public float amount remains at HK\$30 million, but for companies with market capitalization greater than HK\$4 billion and not greater than HK\$10 billion, 25% (existing rules requires 20%) in public float will be required. This heightened requirement will further ensure only quality companies can be admitted to the GEM Board.

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

Yes. There is often the case that the GEM applicants have introduced pre-IPO equity investment within a year prior to the listing application. One year ownership continuity does make sense and provides a shorter grace period for these companies. Also, the management continuity requirement above is already an effective requirement to ensure the stability of the applicant both before and after its successful listing.

- (f) A minimum of 100 public shareholders?

Yes. The requirement of 100 public shareholders is the same as the existing GEM Admission requirement. The public float under the proposed admission rules has been enlarged, thereby enhancing the liquidity and the quality of the applicant.

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

Yes. Free to decide the offering mechanism and underwriting provides higher flexibility to the management to select the right choice suitable for the applicant and avoid unnecessary costs which may incur during the underwriting process.

- (h) Retaining the requirement for a sponsor?

Yes. Having a sponsor, who are familiar with the listing process, can highly enhance the applicants' initial and ongoing compliance of the Listing Rules.

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

Yes. Given the relatively short track record of most GEM applicants, the decision to retain the requirement of reporting the applicant's achievement for its stated business objectives helps protect the interest of investors as prospect of the applicant is usually a predominant factor in the view of investors.

- (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)?

No. The requirement should be brought in line with that of Main Board (i.e. one-year) as the function of a compliance advisor is only for the company to remain in compliance with the Listing Rules. The stability and prospect of the company can be upheld by other proposed measures in this consultation paper.

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

No. The period should be maintained at 2 years as this is an effective measure to protect investors as prospect of the applicant is a predominant factor for GEM applicants in the view of investors.

- 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?**

Approval by the Listing Division can potentially streamline the application process, thereby enhancing the attractiveness of the GEM Board as a whole. However, the Listing Committee should act as a gatekeeper when the GEM-listed companies seek a listing on the Main Board. Finally, as the Listing Division would be rested with this new responsibility, stipulation should be made to ensure application can be responded within a reasonable timeframe.

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

Apart from the e-submission system, the existing communication in the pre-vetting process should be further simplified; in particular, faxes should be phased out in future correspondences.

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

Yes. Except the requirement for compliance advisor and bar on change in business activity (i.e. Q1j & Q1k).

- 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?**

Yes. Except the public float requirement, the other requirements can be brought into compliance swiftly. The three-year "grace period" is reasonable as current listed issuers need time to change their operating conditions and prospects to improve their attractiveness to investors so as to attain to the public float.

- 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?

Yes. Agree with the proposed criteria for transfer of listing except for (ii) where the HKEx might consider relaxing the 2-year requirement to one-year.

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

Yes. A streamlined process for transfer can be the needed incentive to entice quality companies to apply for listing on the GEM Board.

- (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?

Yes. In addition, the applicant should obtain shareholder's approval in an extraordinary general meeting for the proposed transfer..

- (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?

HKEx should seek assurances from the directors of the applicant instead as the responsibility for the accuracy of the information provided in the application should ultimately rest on them.

- (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?**

Yes. A single rule book is more user-friendly for market participants and there should be separate columns in selected sections when the requirements and rules are different for the two boards.

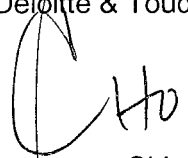
- Q8. Do you have any other comments or suggestions on the further development of GEM as a second board?**

The following is a list of comments we have for the proposed changes to the GEM Board:

- Is the requirement for HK\$20 million operating cash flow for the preceding two years too high? Some upstart companies in the field of technology and energy exploration often have no/minimal operating cash flow until the business matures.
- Will shareholder's approval be required for the transfer of listing from GEM Board to Main Board?
- Will there be any sort of grandfathering for existing GEM-listed companies for compliance of the Listing Rules?
- In order to ensure the quality of the GEM-listed companies under the new regime, should HKEx classify those existing GEM-listed companies in failure to meeting the new admission requirements to ST status (Special Treatment) (like in the PRC) for a grace period of 3 years. HKEx should consider the listing status of GEM-listed companies which still unable to meet the new admission requirements after the grace period.

Should you have any queries on the above matter or require any further information, please contact our [REDACTED] at [REDACTED].

For and on behalf of
Deloitte & Touche Corporate Finance Ltd.



Lawrence Chia
Managing Director

