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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

31st October 2007

Dear Sirs,

Consultation Paper on the Growth Enterprise Market issued in July 2007 (the "Consultation Paper")

We have read the Consultation Paper and welcome the initiative to further develop the Growth Enterprise Market (the "GEM"). We are broadly in agreement with the majority of the proposals and the core aim to streamline the GEM admission procedure so as to make GEM a more attractive platform for fund raising.

We have set out our responses and comments to the questions included in the Consultation Paper in the attached Appendix. Unless otherwise defined, terms used in the Appendix shall have the same meaning as those defined in the Consultation Paper.

We hope the attached responses and comments are helpful. If you want to discuss the matters further, please do not hesitate to contact our Capital Market Services Group partners, [REDACTED] on [REDACTED] or [REDACTED] on [REDACTED].

Yours faithfully,

PricewaterhouseCoopers

Enclosure

Consultation Paper on GEM - Responses and Comments

Questions	Response and Comments
Question 1	
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?	(a) We agree with the proposal. The existing requirement for GEM listing applicants to demonstrate its active business pursuits is "subjective" to interpret and apply. The proposed positive operating cash flow requirement will be a less subjective measure.
(b) The latest two financial years under substantially the same management?	(b) We agree with the proposal as management is a key factor for the success of a company. The latest two financial years under substantially the same management are important to provide investors with information about its management and business performance.
(c) Market capitalisation of at least HK\$100 million?	-
(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)?	-
(e) Ownership continuity and control for the most recent financial year?	(e) We agree with the proposal. In Hong Kong, most companies are family owned. Owners are also involved in the management of these companies and thus ownership continuity is important.
(f) A minimum of 100 public shareholders?	-
(g) Retaining the present free choice on offering mechanism and underwriting?	-
(h) Retaining the requirement for a sponsor?	(h) We agree with the proposal as sponsors play an important role in ensuring that an applicant is suitable for listing. Through them, the directors of the listing applicants could appreciate the nature of their responsibilities under the Listing Rules and notice that they are expected to honour their obligations upon listing of their companies.

Consultation on GEM - Response and Comments

Questions	Response and Comments
<p>(i) Reporting on achievement of business objectives in first two annual reports after listing?</p> <p>(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)?</p> <p>(k) Reduction of the bar on fundamental changes in business activity by one year, i.e. from two years after listing to one year?</p>	<p>(i) We agree with such proposal as reporting on achievement of business objectives provides good management information to investors.</p> <p>(j) and (k)</p> <p>We consider that upon the introduction of the positive operating cash flow requirement as one of the admission requirements for GEM listing, the applicants should have certain scale of operation. With such scale of operation and with an aim to re-position GEM as a second board to the Main Board, we consider GEM listed issuers should be subjected to similar requirements as that for MB listed issuers. Thus, the requirements to have a compliance adviser and restriction on changes in business activity are considered not necessary.</p>
<p>Question 2 Do you agree that GEM listing applications should be approved by the Listing Division on its own, without the involvement of the Listing Committee?</p>	<p>We do not agree with the proposal. In order to provide the same level of protection to investors, all listing applicants, irrespective of which platform their shares are to be listed, should be subject to the same level of scrutiny. At present, Main Board listing applicants are required to be considered and approved by the Listing Committee. We consider the same should be applied to GEM companies.</p> <p>See also our comment on Question 6.</p>
<p>Question 3 Do you have any suggestions on further streamlining the new admission process for GEM?</p>	<p>As mentioned in Question 2, we do not agree with the proposal to delegate the GEM listing approval power to the Listing Division. However, if this proposal is adopted, it is not clear from the Paper on whether the listing applicants are subject to comment from the SFC, similar to the existing dual filing arrangement. We urge the Exchange to clarify this when finalising the proposal.</p>
<p>Question 4 Do you agree with the proposed revised continuing obligations for GEM?</p>	<p>In principle, we agree with the proposal. The revision will minimise the differences between the Main Board listing rules and GEM listing rules on continuing obligations and help to reduce the barrier for a GEM listed issuer to apply for a transfer to the Main Board.</p>

Consultation on GEM - Response and Comments

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<p>Question 5 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?</p>	<p>We agree with the proposal that existing GEM listed issuers should comply with the proposed revised continuing obligations immediately, except for the public float requirement. We also consider the proposed three-year "grace period" for compliance with the public float requirement is appropriate.</p> <p>For those listed issuers who cannot meet the public float requirement after the grace period, will they subject to immediate delisting? Will new measures or platforms be put in place to help these companies?</p>
<p>Question 6 Transfer from GEM to Main Board.</p> <p>(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?</p> <p>(b) Do you agree that the process for transfer of qualified companies from GEM to the Main Board should be streamlined?</p>	<p>(a) Given GEM is to be re-positioned as a second board to the Main Board, the criteria for transfer of listing from GEM to the Main Board should be more straight forward. GEM listed issuers should not be penalised when compare to listing applicants that choose to be listed directly on the Main Board.</p> <p>On this ground, we agree with the proposed criterion (i). However, criteria (ii) and (iii) may be in conflict with the above spirit. The proposed two years' threshold may penalise those GEM issuers who qualified for Main Board admission immediately after listing on GEM for a year. For example, an applicant goes for listing on GEM because it only has two years track record. It is possible that after listing on GEM for a year, it meets all other Main Board admission requirements. However, with the proposed criteria (ii) and (iii), it will then need to wait for another year before it can be listed on Main Board solely because it chooses to list on GEM, the second board, first.</p> <p>(b) We agree that the process for vetting and approving the transfer from GEM to the Main Board should be streamlined given GEM is going to be re-positioned as a second board and as a stepping stone for listing on Main Board. To support such structural change, the transfer process to Main Board must be streamlined.</p>

Consultation on GEM - Response and Comments

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<p>(c) Do you agree that the process of transfer should be treated as an announcement by the issuer, to be prevetted and approved by SEHK's Listing Committee?</p> <p>(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 director?</p> <p>(e) Do you have any other suggestions in respect of the transfer process?</p>	<p>(c) In principle, we agree that the process of transfer should be streamlined.</p> <p>We have mentioned in Question 2 above that we disagree with the proposal to delegate GEM listing approval power to the Listing Division. If our suggestion is adopted, we consider the process of transfer can be further streamlined by an announcement to be prevetted and approved by SEHK's Listing Division only, instead of by the Listing Committee. This is because we consider the listing and continuing listing criteria for GEM listed issuers and the Main Board listed issuers are expected to be more in line with each other. There should not have significant debate on whether a company is able to meet the proposed quantitative criteria for transfer from GEM to the Main Board.</p> <p>(d) We consider HKEx should seek to rely directly upon the assurance of the directors of the listed issuers. By allowing a company to be listed on GEM, HKEx should have already satisfied with the integrity and competence of its directors. Therefore, it should seek to rely directly upon the assurance of the directors of the listed issuers instead of asking for a confirmation from a licensed financial adviser.</p> <p>(e) We have no other suggestions.</p>
<p>Question 7 Do you agree that the Main Board and GEM Listing Rules should eventually be merged into a single rule book?</p>	<p>We agree with the proposal as this can avoid any unintentional differences between the two sets of Listing Rules. Moreover, this will also help to reduce the market's misperception that there are significant differences in the two sets of Rules. If different Rules are expected to be applied to GEM and Main Board listed issuers, they should be set out in separate sections in the same chapter.</p>
<p>Question 8 Do you have any other comments or suggestions on the further development of GEM as a second board?</p>	<p>In addition to the above, we suggest HKEx to consider renaming 'GEM' with another name so as to provide a new image that it is a second board and a stepping stone for the Main Board.</p>