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31st July 2003

The Securities and Futures Commission
Corporate Finance Division
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8 Connaught Road Central
Hong Kong

By fax no: 2810 5385
& by hand

The Hong Kong Exchanges and Clearing Limited
Listing Division
11th Floor, One International Finance Centre
1 Harbour View Street
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Hong Kong

By fax: 2295 3599
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Dear Sirs,

Re : Response to Consultation Paper on The Regulation of Sponsors and Independent Finance Advisers issued in May 2003

We refer to the Consultation Paper on The Regulation of Sponsors and Independent Finance Advisers issued by the Exchange and the SFC jointly in May 2003 (the "Consultation Paper"). Unless otherwise defined, terms used herein shall have the same meanings as in the Consultation Paper.

Whilst each firm would submit its own reply on the Consultation Paper, it is our unanimous conclusion that we strongly object to the following:

1. Undertakings to the Exchange

We note from the consultation paper that such undertakings are not currently required by the Main Board and the UKLA while most of them are also not needed by the GEM Board. Under Section 23 of the Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong), the Stock Exchange is to provide a fair, orderly and efficient market for the trading of securities. As such, we do not believe that by having

"the sponsor (and also its eligible supervisors) to make the proposed undertakings to the Stock Exchange of complying with (i) the relevant Listing Rules applicable to sponsors and (ii) the proposed Code of Conduct for Sponsors and Independent Financial Advisers" as being essential to the Exchange for providing a fair, orderly and efficient market for the trading of securities.

Moreover, we are uncertain as to whether the listing rules which are designated for governing the listing of securities (and also their issuer) will be subject to an objective and consistent interpretation if the statement of "a breach of the undertaking will be deemed to be a breach of the Listing Rules ....." is so established. We do not see the reason for the listing rules, which governed the listing of securities on the Exchange, to be extended to govern corporate finance advisers when they are currently subject to the regime of the SFC.

2. Responsibilities

We do not agree that there is an expectation gap between the Exchange's view of the responsibilities of sponsors and the manner in which many sponsors are discharging those responsibilities.

It is currently set out in the Model Code for Sponsors of the Listing Rules (Main Board) that the purpose of the model code is to provide guidance in relation to the Exchange's minimum expectations of the sponsor's role. It is also specified in the model code that failure by a sponsor to meet such expectations without reasonable cause may render it unacceptable to perform the role of sponsor in future. In fact, this has always been consistent with the role performed by sponsors in Hong Kong all along.

It appears from the Consultation Paper that the rationale for the proposal as stated in paragraph 133 of the Consultation Paper is that "*recent experience in Hong Kong suggests that some sponsors to issues of securities on the Exchange are not performing their role to an adequate standard. In a number of cases in which problems have been identified with the accuracy of statements made in IPO prospectuses and listing application documents, sponsors have sought to disavow*

responsibility by saying that they relied on information provided by directors or officers at face value." It is further stated in that paragraph that the Exchange does not view such level of due diligence as adequate due diligence in the context of what is recognized as such in developed markets. The Consultation Paper does not stipulate as to what evidence was being accepted prima facie in respect of those IPO prospectuses where problems concerning accuracy of certain statements are identified. Nevertheless, no matter how in depth a due diligence review is, the starting point for such review is always information provided by the potential listed issuer and its directors/management. We accept that certain information provided by the listing applicant may be cross-checked and verified from public records or sources. However, there is no foolproof way to cross check or verify every single piece of data with those available in public or to the sponsors. We believe that the adequacy of the level of due diligence to be performed is to be determined in the context of the particular issue, after taking into account the practical constraints and facts of the situation.

Under the proposal, the Exchange proposes that sponsors should conduct reasonable investigations in several areas of concern, namely (i) suitability of listing, (ii) "non-expert sections", and (iii) "expert sections" which allow the Exchange to rely upon during its assessment of the applicant's listing application and listing document. Given the role as a sponsor, we believe that it is not unreasonable that sponsors should be required to carry out certain review procedures regarding the suitability of listing of the issuers.

However, the proposal that a sponsor should take responsibility to ensure that certain sections of the prospectus are true and no material fact is omitted therefrom to make the same misleading is, in our view, unreasonable.

In respect of "non-expert sections", sponsors may have difficulty in assessing the correctness and completeness of certain information notwithstanding that they have carried out work to the extent possible to ascertain the truthfulness and completeness of the information. In most instances, sponsors would expressly warn readers of the practical difficulty although it is the practice of the Exchange to request the deletion of such warning statements in total disregard of the practical difficulty facing sponsors and the consequence of not having such a warning statement.

With respect of the "expert sections", it is a gross mistake to require a non-expert to take responsibility for the work of an expert. Each of the professional advisers who is involved in the process of bringing potential issuers to the market shall share the responsibilities to enhance their respective standard of works. The proposal to require a sponsor to give a negative confirmation that the "expert sections" are true and free from omission of a material fact implies that it is the duty of a sponsor to exercise professional judgment on the advice of or work performed by other professional advisers. As sponsors, we are not in the position nor are qualified. to perform such professional roles. Practically, we have experienced difficulties in obtaining the full support of other professional advisers when their professionalism is repeatedly challenged. Hence, it is our view that if the experts so appointed are independent from the issuer and qualified to provide the information set out in the "expert sections", it shall be sufficient and reasonable for the Exchange to place reliance on their statements. If the Exchange have doubts on the experts' work or opinion and needed another third party to provide comfort, the Exchange may consider having the listing applicant appoint a separate firm of auditors or valuer, for example, to provide comfort with respect to reliance on the expert report. By singling out the Sponsor to perform the above review and to confirm statements in the "expert section" is grossly unfair and unreasonable to the Sponsor.

3. Declaration by sponsors and lead underwriters in listing documents to be registered

We do not agree with the proposal and it is our view that the proposal is made without giving any regard to the market practice in Hong Kong and the role of a lead underwriter in a Hong Kong IPO. No reason has been given for such a proposal nor has the proposal dealt with the different role of a sponsor and a lead underwriter. The due diligence undertaken by the lead underwriter is specifically for the purpose of deciding whether or not to underwrite the offer, and not for the purpose of making public statements to the investing public.

As mentioned above, we note that the Exchange proposes to request the sponsors to conduct reasonable investigations on several areas of concern, namely (i) suitability of listing, (ii) "non-expert sections", and (iii) "expert sections" which allow the Exchange to rely upon during its assessment of the applicant's listing application and

listing document. Notwithstanding that we, as a sponsor, may make investigations (or any applicable review procedures), it is impracticable for us to fully satisfy ourselves and/or to assure the Exchange whether all the information set out in the "non-expert sections" is without any omission or not misleading. As such, we do not consider it is fair or reasonable for the sponsor (or the lead underwriter) to provide such declaration. It may be more appropriate to advise the investors to be fully aware of the particular nature of the information set out in the "non-expert sections".

4. Other consideration

We do not agree that the Exchange should retain an overall discretionary power in a number of aspects. This is because it is always difficult for discretionary power to be exercised in a consistent manner and discretionary power should be exercised on occasions to cater for unforeseeable circumstances and not a part of a set of rules.

Recommendation

We understand that the primary role of the Stock Exchange is to provide a fair, orderly and efficient market for the trading of securities. It is not supposed to be responsible for preventing and detecting corporate irregularities (and so do the sponsors). Accordingly, we do not consider that it is compulsory for the Stock Exchange to put forward the proposals on regulating the sponsors and, particularly, we strongly object to the aforesaid proposals which are not market practice worldwide and/or not market acceptable. Nevertheless, we suggest that the Exchange may take more initiative to promote and advocate the Code of Conduct on the corporate governance of the listed issuers. Given the parallel interests between the Exchange and the sponsor firms, should either party be put into jeopardy, we consider that the sponsorship system cannot be run as efficient and effective as before.

We are a group of investment banks focusing on the Greater China Region and with significant share of the new issue market in Hong Kong. We strongly believe that the Greater China Region is an important market for the Exchange to focus on so as to maintain and enhance the role of Hong Kong as an international finance center. As such, we respectfully request the Exchange to listen to our voice and revise the proposal under the Consultation Paper taking into account our concerns such that the gap between the regulators and market participants could be narrowed.

Yours faithfully,

For and on behalf of
Barits Securities (Hong Kong) Limited

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Executive Director

For and on behalf of
CSC Asia Limited

Andrew Chiu
Managing Director
Head of Investment Banking

For and on behalf of
Core Pacific – Yamaichi Capital Limited

Daniel Ng
Director

For and on behalf of
Get Nice Capital Limited

Louis Yiu
Director

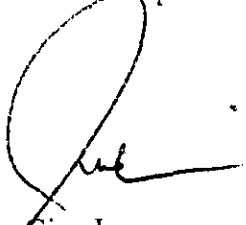
For and on behalf of
Guotai Junan Capital Limited

David Lui
Executive Director

For and on behalf of
Hantec Capital Limited

Thomas Lai
Director

For and on behalf of
INCU Corporate Finance Limited



Gina Leung
Director

For and on behalf of
Kim Eng Capital (Hong Kong) Limited

Michael Chum
Director

For and on behalf of
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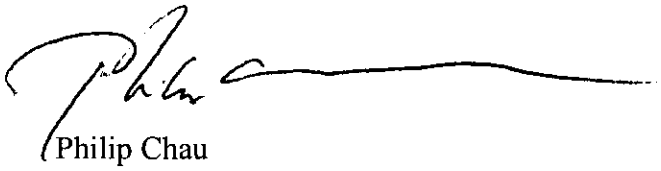
REXCAPITAL (Hong Kong) Limited



Philip Chau
Director

(in alphabetical order)

c.c. Mr. Paul Chow – Chief Executive of Hong Kong Exchanges and Clearing Limited