



**E2-Capital
GROUP**

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31 July 2003

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

Securities and Futures Commission
Corporate Finance Division
8th Floor
Chater House
8 Connaught Road Central
Hong Kong

Dear Sir,

**Re: Consultation Paper on The Regulation of Sponsors and Independent
Financial Advisers ("Consultation Paper")**

We refer to the Consultation Paper on The Regulation of Sponsors and Independent
Financial Advisers.

We are in general support the direction as proposed by the Commission and the
Exchange in the Consultation Paper working towards a tighter regulatory regime in
Sponsorship and Independent Financial Advisers works. However we have
reservations on the effectiveness on some proposals in enhancing the competitiveness
of Hong Kong as a leading international financial center and the premier capital
formation center for China.

Please find below the areas which we have reservations or do not agree. For your
ease of reference we adopt the same numbering in the Consultation Paper throughout
this letter.

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Q.4 Competence and experience of the sponsor and IFA firms

We are of the view to merge the present Principal Supervisors and Assistant Supervisors under the GEM Listing Rules into Eligible Supervisors would have little effect on improving the quality of the sponsorship works. Further the number of Eligible Supervisors in sponsorship works should remain at 2 to fall in line with IFA works and the Responsible Officer concept under the Securities and Futures Ordinance. The Exchange should also consider to recognize significant equities fund raising activities such as underwriting and placements as relevant corporate finance experience.

Q. 5 Qualifications and experience criteria of eligible supervisors

The full implementation of the experience requirement as stipulated in the Consultation Paper may create a shortage of Eligible Supervisors in the market, and we propose 3 years relevant experience set as the minimum standard for Eligible Supervisors.

Q.9 Independence

We would like the Commission and the Exchange to further clarify the phrase "has an interest in or business relationship...".

Q.11 Reasonable investigations

The proposals appear to create an onerous burden on the Sponsors and in some cases appear impracticable. For example,

- In determining whether the new applicant is suitable for listing, the responsibilities should primarily rest on the Exchange and the Commission, it is not unusual when the Sponsors do not come to the same view as with the Commission and the Exchange;
- When the directors of the new applicant have signed the listing application/prospectus in acknowledging their understanding of the Listing Rules, it is redundant and unnecessary for the Sponsors to repeat what have been declared by the directors of the new applicant and also it is not appropriate for the Sponsors to acknowledge on behalf of other persons;
- The Sponsors, in discharging their duties in the sponsorship works, have to rely on the works of other experts in a particular area due to the specialized nature of the works. In the circumstances, the Sponsors are not in a position to form a view whether the experts have been properly discharging their works otherwise it will lead to a situation as a non-expert challenging an expert opinion.



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Q.12 Code of Conduct for Sponsors and Independent Financial Advisers ("Code of Conduct")

We are by and large in support of the overall direction stated in the proposed Code of Conduct however we have reservations on some aspects which may create too onerous burden and an unfair situation to the Sponsors. For example the Sponsors need to verify the authenticity of the educational and professional qualifications of the directors or senior management of the new applicant, and the Sponsors have to make independent enquiries with other regulators in verify the personal background of the senior management / directors of the applicants. Owing to the Personal Data (Privacy) Ordinance, these checking should be more appropriate and more effectively done by the regulators than the Sponsors.

The proposed Code of Conduct requires the Sponsors to confirm the expert or professional does not have a relationship with the new applicant, which in our view is not fair to the Sponsors and inappropriate. The Sponsor should not and cannot confirm on behalf of the expert and/or professionals. The expert and/or professionals should make their own declarations and to bear their own legal liabilities if they make any misleading and false statements.

Q.17 Ability of existing GEM and Main Board Sponsors and IFAs to meet eligibility criteria for acceptable tests

We may not be able to meet the eligibility criteria for Sponsorship works.

Conclusion

We do not agree that regulatory authorities should move away from pre-vetting of corporate disclosure materials to post vetting of documents on a selective basis with enforcement action being taken against relevant party. Regulatory authorities have to take necessary steps to ensure the contents of the prospectus are accurate, not misleading and all relevant materials be properly disclosed. To adopt a passive role in pre-vetting process and then a tight enforcement approach to any wrong doings allegedly committed by other professional parties in the listing process will not enhance the quality of the stock market. This may lead to a rise in disciplinary and/or legal actions against Sponsors and issuers, and will adversely affect the reputation of Hong Kong as a premier international financial center. Regulatory authorities should not "sub-contract" the pre vetting responsibility in the listing process to the Sponsors, and the investing public expects the Regulators to perform more than a "mail box" function in the prospectus vetting stage.



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Thank you for your consideration.

Yours faithfully
For and on behalf of
E2-Capital Group

Billy Cheung
Company Secretary