

**URGENT BY FAX AND BY HAND**

(2868 5028)

Our Ref.: C/ACLTR

30 June 2000

Listing Division,  
The Stock Exchange of Hong Kong Limited,  
11/F., One International Finance Centre,  
1 Harbour View Street, Central,  
Hong Kong.

Dear Sirs,

Consultation Paper on  
the Introduction of a new Chapter 3A to  
the Rules Governing the Listing of Securities on  
The Stock Exchange of Hong Kong Limited on Sponsors and Financial Advisers

We have reviewed the above Consultation Paper and our comments are set out below.

1. Paragraph 3A.17

The requirement for a prospective sponsor to have completed one sponsorship role in an IPO in the year before application may cause problem to the new entrants. IPO activities on the Main Board have not been particularly active in the last year and, under normal circumstances, one would only see a limited number of eligible merchant banks having sponsored IPOs in a given year. Therefore, the imposition of this requirement could have the undesirable result of rendering a large number of experienced merchant bankers ineligible. A requirement of 2 sponsor/3 co-sponsor roles in the last 5 years is considered more appropriate. In addition, experiences gained in preparing composite documents in major transactions/"back door" listings should to some extent be recognised.

2. Paragraph 3A.18

The minimum requirement of 2 full-time executive directors is considered excessive for a small scale IPO. It is considered more meaningful to require that one senior member of the corporate finance team, being a full-time executive director, is appointed to lead a transaction who is assisted by a team of staff members.

3. Paragraph 3A.27

One of the reasons given for the proposal to allow sponsor to have a passive shareholding up to 5% is that this could be regarded to demonstrate the sponsor's confidence in the business and management of the new applicant. Based on the

above, it can be argued that a minority shareholding in an applicant client is considered not unacceptable if it is fully disclosed.

4. Paragraph 3A.58

Even if all the necessary procedures have been undertaken by the sponsor and other relevant parties, it is still possible for the press or others to be able to pick up information. And, under certain circumstances, it may be necessary for timing or other reasons to commence the marketing of a transaction even before Listing Committee meeting is held. We suggest that the Exchange (in conjunction with the SFC) should issue guidelines on pre-IPO marketing activities so that the market knows clearly what can or cannot be done. There may be a risk that by codifying this practice an applicant's "business competitor" or others can deliberately delay or halt an issue simply by leaking information about the application to the press.

5. Paragraph 3A.60

The proposed level of assurance required of a sponsor or other relevant professional advisers is considered too high in that they are required to "verify" the documents in question.

6. Paragraph 3A.61

It is not the normal duty of the compliance division of a sponsor to ensure that the internal due diligence of an applicant has been completed; instead it is the duty of the professionals of the corporate finance department. It is considered unreasonable to require the compliance division to be involved in such a capacity.

7. Paragraph 3A.62

It appears unreasonable to impose this requirement on a sponsor. Perhaps the Exchange should obtain the required confirmation from the directors.

8. Paragraph 3A.70

Similar to our comments on paragraph 3A.60 above, the level of assurance required of a sponsor is considered too high as it is required to ensure that all information provided by professional advisers is "accurate, complete and prepared with due care and consideration".

9. Paragraph 3A.80

It will not be unusual for sponsors to terminate its contract with the applicant upon expiry of the Fixed Period. Therefore, it should be made clear that 3A.80 and 3A.81 only apply during the processing of the IPO and the Fixed Period.

If you have any questions on our above comments, please do not hesitate to contact our Stephen Chan, Deputy Director of Professional Standards, in the first instance.

Yours faithfully,

LOUIS L.W. WONG  
REGISTRAR  
HONG KONG SOCIETY OF ACCOUNTANTS

LW/SSLC/jc