

26 September 2019

**BY HAND AND BY EMAIL**

Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
8<sup>th</sup> Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Dear Sirs,

**Consultation Paper on Codification of General Waivers and Principles Relating to IPOs and Listed Issuers and Minor Rule Amendments**

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the captioned consultation paper. Terms used in this letter shall have the same meaning as defined in the consultation paper.

We welcome the Exchange's continued efforts to streamline the listing process and to improve the clarity of the Listing Rules.

We have focused our detailed review on those proposed Rule amendments which are more relevant to our role as auditors/reporting accountants, and our comments are set out below:

**(4) Disclosure of financial information of subsidiaries or businesses acquired or to be acquired after trading record period**

We agree with the proposal to codify the existing practice of granting waivers provided that all the conditions are met. We would like the Exchange to clarify the following issues.

The proposed Note (a) to Main Board Rule 4.04 sets out the first condition for such waivers: "all the percentage ratios (as defined under rule 14.04(9)) are less than 5% by reference to the most recent audited financial year of the new applicant's trading record period". It would be helpful if the Exchange could clarify whether it meant "all applicable percentage ratios" because the equity capital ratio will not be applicable if the purchase consideration does not involve the issue of consideration shares. Furthermore, the denominator for the consideration ratio in Main Board Rule 14.07 is the total market capitalisation of the listed issuer which, for the purpose of that Rule, means "the average closing price of the listed issuer's securities as stated in the Exchange's daily quotations sheets for the five business days immediately preceding the date of the transaction". In the case of the listing applicant, should the denominator be the expected initial

market capitalisation of the listing applicant as stated in the listing application? What if there is a range of the expected market capitalisation?

It is stated in paragraph 35 of the consultation paper that “the Exchange also recognises that where the financial information of the subsidiaries or businesses acquired/to be acquired is not material to the new applicant, disclosure of the financial results and positions of the acquired subsidiaries or businesses will be of limited value and use to investors”. However, we note that, with respect to acquisitions of a business or a subsidiary, despite the 5% condition set out above and the alternative disclosure required, a new applicant can only obtain a waiver if the historical financial information of such business or subsidiary is unavailable or it would be unduly burdensome to obtain or prepare such financial information. We should be grateful if the Exchange would explain further the rationale for this approach, as it appears that if the financial information is available, the new applicant would not be able to obtain a waiver even if the business/subsidiary is immaterial (e.g., the size is well below the 5% threshold). Also, what if the acquisition cannot meet the material threshold (i.e., bigger than 5%) but the financial information is unavailable?

#### **(5) Disclosure of financial information by overseas banking companies**

We agree with the Exchange’s proposal to codify such waivers.

#### **(6) Change of financial year period**

There is a current exception in Main Board Rule 8.21(2)(a) to allow a change to make a subsidiary’s financial year-end date coterminous with that of the new applicant, but not the other way round. We agree with the proposal to add a new Main Board Rule 8.21(3) to permit a new applicant to change its financial year to conform its financial year-end date with that of its subsidiaries prior to its proposed listing, provided that the conditions set out in the Listing Rules are met.

#### **(7) Publication of preliminary results announcements and distribution of annual reports and interim reports**

We agree with the proposal to exempt the publication of the first interim report, first annual results announcement and first annual report if a new applicant fulfils the conditions set out in the Listing Rules.

#### **(12) Working capital statement in listing documents and transaction circulars of Main Board issuers that are banking companies or insurance companies**

We agree with the proposal to amend Main Board Rule 8.21A for banking/insurance listing applicants, and to extend the exemption to circulars/listing documents of listed banking/insurance companies.

**(18) Confirmations required on the accountants' report, pro forma financial information and profit forecast in Application Proofs and subsequent draft listing documents**

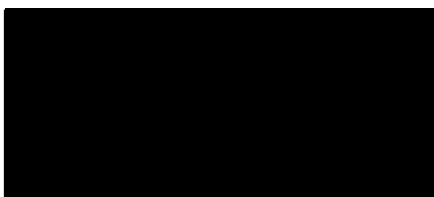
Guidance Letter HKEX-GL58-13 requires a written confirmation to the new applicant from the reporting accountants that no significant adjustment is expected to be made to the draft accountants' reports on (1) historical financial information; (2) pro forma financial information; and (3) profit forecast (if any) included in the Application Proof based on the work done as of the date of the confirmation, and sets out the content requirement for such confirmation.

We note that the Exchange intends to codify the guidance in Guidance Letter HKEX-GL58-13 in Main Board Rule 9.11, and to post a template of the confirmation on the Exchange's website. We expect that the template would be the same as the one set out in the Appendix to HKEX-GL58-13, in which the no-significant-change confirmation is subject to the completion of outstanding procedures as permitted by the Exchange. For the avoidance of doubt, we suggest that the underlined statement be added to the proposed Rule 9.11(3d):

"a written confirmation to the new applicant from the reporting accountants that, subject to the completion of outstanding procedures as permitted by the Exchange, no significant adjustment is expected to be made to the draft accountants' reports on (1) historical financial information; (2) pro forma financial information; and (3) profit forecast (if any) included in the Application Proof based on the work done as of the date of the confirmation"

Should you have any questions on the above comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, Mr. Paul Hebditch, on [REDACTED]

Yours faithfully,



*Certified Public Accountants*  
Hong Kong