



15 October 2009

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Financial Centre
One Harbour View Street, Central
Hong Kong

Dear Sirs,

Re: Consultation Paper on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong

The Chamber of Hong Kong Listed Companies ("CHKLC") is pleased to submit our opinions to the captioned Consultation Paper.

CHKLC agrees in principle to the proposal of accepting financial statements by Hong Kong listed issuers incorporated in the Mainland prepared under the China Accounting Standards for Business Enterprises ("CASBE") and audited with China Auditing Standards by Mainland audit firms. However we would like to raise a number of issues and hope the HKEx would pay special attention to them, as follows:

- 1) It is noted that CASBE, Hong Kong Financial Reporting Standards ("HKFRS") and International Financial Reporting Standards ("IFRS") are not fully converged, especially in a number of areas, for example, the treatment of fair value of intangible assets, the treatment of a number of notes to the accounts, and the recognition of financial instruments. Therefore, investors in Hong Kong may not get the financial picture of a company in a way that they are accustomed to.

If CASBE are to be accepted and adopted and in order to facilitate comparison and benchmarking for financial statements that are prepared under HKFRS and/or IFRS, we recommend that listed companies that adopt them prepare a reconciliation statement restating the profit or loss, or other important matters, according to Hong Kong or international accounting standards, as well as provide negative statements as appropriate.

- 2) There are concerns among our members that the mainland audit firms, especially the local ones, would lack the necessary knowledge and experience with the Hong Kong listing rules, Companies Ordinance and FRC Ordinance. The audit industry of the Mainland only developed after international audit firms had entered the market, and it still takes some time for the practice of auditing to catch up with the international level.



The proposed framework relies heavily on Mainland regulatory authorities in approval of registration, monitoring and continuing oversight of the Mainland audit firms. With due respect to Mainland regulators, they may also not be fully in grasp with the specific Hong Kong accounting and auditing requirements and practices. We are concerned that such framework, without the more active participation by their Hong Kong counterparts, would fail to create the comfort level for Hong Kong investors.

To assure the best investor confidence, Hong Kong Institute of Certified Public Accountants ("HKICPA") should not only be setting registration requirements but have a mechanism to participate in the vetting, on-going monitoring and oversight. In cases where investigations are necessary, HKICPA or the Financial Reporting Council should have a way to be involved in the process and advise on the proper sanctions, if any, to be meted out.

We understand there are issues involving laws and regulatory jurisdictions between the Mainland and Hong Kong. However, mainland listed companies accounted for a major make-up of the Hong Kong market, both in terms of market capitalization and turnover, and are widely followed by local investors here. Any mishaps involving mainland companies would have far reaching negative effects to the stability and confidence of our market. In consideration of the need to maintaining the integrity of our financial markets and to preserve investor confidence, a cross-border mechanism with active participation of Hong Kong authorities is very important. The consultation paper did mention co-operative arrangements between Hong Kong and Mainland regulatory authorities, but apart from saying HKICPA would be involved in the setting up and agreeing to the qualification requirements for the mainland audit firms, very little has been said about these arrangements. This is an area of concern to us.

- 3) One of the objectives of this proposal is cost savings. It has been noted by one of our members that has an A+H listing that while savings in audit fees can be enjoyed from the removal of the need to produce separate sets of financial statements after adoption of CASBE, A+H issuers would still need to produce and print two sets of annual reports for the two markets. There are also differences in the requirements for disclosure of non-financial information under IFRS and CASBE as well. This makes the cost savings effect of this proposal not as salient as one would believe.
- 4) When implementing this new arrangement, it is inevitable that the Hong Kong regulators will incur costs, such as financing the HKICPA initial study, maintaining and updating the approved list of audit firms, and in referring investigations to the Mainland regulators when necessary. Whether these additional costs will be passed on to listed issuers could potentially be an issue of concern.
- 5) This arrangement is proposed to take effect on January 1, 2010 and will apply to annual accounting periods beginning on or after 1 January 2010. Given most mainland incorporated companies have their year end at the end of December, their first periodic report for the Hong Kong market would be for the six months ending June 2010. There should be sufficient time for the new framework to kick in. The majority of mainland incorporated companies are using the Big 4 as their audit firms and these



香 港 上 市 公 司 商 會
THE CHAMBER OF HONG KONG LISTED COMPANIES

firms would have their own Chinese practice teams, and so we do not foresee a big transitional problem. However we are concerned about the readiness of some of the fundamental work before the commencement date. We noted from the consultation paper that HKICPA has reviewed materials and held discussions with relevant Mainland authorities on the Mainland auditor monitoring system; the paper suggested that the finding report of which has not yet been presented to the Exchange. Without the findings, the Hong Kong authorities could not possibly satisfy themselves with the comprehensiveness of the Mainland auditor monitoring system. We wonder whether this would present challenge to the Exchange in commencing the framework on the proposed date without causing concerns on the integrity of the whole monitoring system going forward.

To conclude, CHKLC agrees that the framework could increase efficiency and create new opportunities for the auditing profession in both markets. However we believe firstly that companies adopting CASBE should still make reconciliation statements to explain any disparity, and secondly it is very important to further involve the Hong Kong regulators and accounting professional body in the quality assurance and monitoring process. The latter is found wanting in the existing proposed framework. We hope the Exchange can address this issue in order to raise investor confidence in the integrity of financial reports of our market.

Yours sincerely,

Patrick Sun
Vice Chairman
The Chamber of Hong Kong Listed Companies