

18 March 2011

BY HAND AND BY FAX

Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Attn: Corporate Communications Department

Dear Sirs,

Re: Consultation Paper on Review of the Code on Corporate Governance Practices and Associated Listing Rules

Ernst & Young is pleased to respond in this letter to the request of Hong Kong Exchanges and Clearing Limited ("HKEx") for comments regarding the proposals set out in the captioned Consultation Paper.

We welcome the HKEx's ongoing initiative to promote the development of higher corporate governance standards. We have focused our response on the proposals which are more relevant to our role as auditors.

Auditors' attendance at annual general meetings

We note the HKEx's proposal to include a statement in Code Provision E.1.2 that an issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

We note that in devising the proposal, the HKEx has adopted the categories of questions set out in the Australian law. We also note that the Singapore's Code of Corporate Governance 2005 only provides that the external auditors should address shareholders' queries about the conduct of the audit and the preparation and content of the auditors' report.

We agree that external auditors should attend annual general meetings and that they should answer questions limited to the content of the auditors' report. However, we have a concern about the effectiveness of requesting the auditor to answer questions about the conduct of the audit, the preparation of the auditors' report, the accounting policies and auditor independence. We also suggest that should the proposal be adopted, then before it is finalized, the HKEx should work with the Hong Kong Institute of Certified Public Accountants ("HKICPA") to issue guidance materials with a view to narrowing any expectation gap between the shareholders and the external auditors. We set out our detailed comments on this proposal below.

We believe that the concerns raised in paragraph 304 of the Consultation Paper are valid. The legal implications of the auditors answering specific questions about the conduct of their audit and the details of preparation of the auditors' report are not clear. An audit opinion is formed on the financial statements as a whole, instead of individual items therein. The directors of the listed company are responsible for the preparation of the financial statements and the audit committee will have previously discussed the financial statements and the audit with the auditors. Therefore, we consider it inappropriate for the auditors to provide details of specific audit procedures on financial statement components. Any answers provided by the auditors at the annual general meetings will need to be generic in nature, which may not satisfy the shareholders posing the questions. The selection of accounting policies is the responsibility of the issuer's management who should address questions from shareholders on the appropriateness of the choice of accounting policies. The external auditor may only state whether the accounting policies comply, or do not comply, with the relevant accounting standards. In the event that certain accounting policies do not comply with the relevant accounting standards, the matter would have been the subject of a qualification/modification in the auditors' report. We therefore consider it sufficient to include in the Code Provision that the external auditor should only answer questions about the content of the auditors' report.

We note in paragraph 305 of the Consultation Paper that the HKEx considers that the objections in paragraph 304 can be dealt with by an issuer making shareholders aware of the limitations of the auditors' role and the limitations faced by the auditors when attending general meetings to answer questions from shareholders. However, in practice, shareholders may not fully understand the nature and the limitations of an audit and issuers may have practical difficulties to provide appropriate guidance to shareholders in this respect. The proposal as it is may create a false impression that auditors are responsible for issuers' affairs and invite questions directed at the auditors which they are not in a position to answer. An auditor who appropriately refers back to the issuer's management any question beyond the auditor's responsibilities (e.g. choice of accounting policies) may, unnecessarily, create an unfavourable impression upon the shareholders. In response to the relevant Australian law, we note that the Australian authorities have in place a guidance statement providing guidance to auditors when responding to questions at annual general meetings. However, in practice, the guidance statement often leads to boiler-plate responses to queries raised by shareholders. Should the HKEx still intend to include such a proposed statement in the Code Provision, we suggest that, before the proposal is adopted, the HKEx should work with the HKICPA to issue guidance materials with a view to narrowing any expectation gap between the shareholders and the external auditors.

Regarding auditor independence, the external auditor will already have assessed its independence in accordance with Section 290 "Independence - Audit and Review Engagements" of the Code of Ethics for Professional Accountants issued by the HKICPA or other equivalent standards and so would be in a position to respond to questions about auditor independence by making reference to such standard(s). However, we question whether matters of auditor independence need to be raised at the annual general meetings given that the audit committee is already entrusted with the duty to review and monitor the external auditor's independence.

Audit committee to meet external auditors at least twice a year

We agree to the proposal to amend Code Provision C.3.3(e)(i) so that the audit committee shall meet with the external auditor at least twice a year. We believe that more regular communication between the audit committee and the external auditor will be beneficial to all parties concerned.

Shareholders' approval to appoint and remove an auditor

We note in paragraph 281 of the Consultation Paper that the Joint Policy Statement Regarding the Listing of Overseas Companies states that the appointment and removal of auditors must be approved by members on terms comparable to those required of a Hong Kong incorporated public company.

We do not have any objection to the proposal to introduce a new Listing Rule to (i) require shareholders' approval at a general meeting of any proposal to appoint an auditor and to remove an auditor before the end of his term of office; and (ii) require a circular for the removal of auditor to shareholders to contain a written representation from the auditor (if any) and allow the auditor to make written and/or verbal representation at the general meeting to remove him.

Should you have any questions on the above comments, please do not hesitate to contact

Yours faithfully,

Ernst & Young