

2 December 2009

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

Attn: Corporate Communications Department

Dear Sirs,

**Re: Consultation Paper on Proposed Changes to the Connected Transaction 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 HKEx's continued efforts to respond to market comments and to ensure that the Listing Rules meet their purpose and intent in a balanced and cost-effective manner. In general, we support HKEx's initiatives to relax the current connected transaction rules which cast a wide net and may catch persons or transactions which fall outside the purpose of the Listing Rules. We have focused our response on the proposals which are more relevant to our role as auditors.

We agree to the proposal set out in section F(4) of the Consultation Paper to clarify that the auditors' annual review requirements apply only to non-exempt continuing connected transactions that are subject to reporting and disclosure requirements in Chapter 14A and consider that the proposed draft rule amendments in Appendix I to the Consultation Paper will effect the proposal. Exempt transactions are not required to be disclosed in any announcement or annual report and are not subject to annual caps. We have previously suggested to HKEx about the need for such clarification and are grateful to note that HKEx has been responsive to market comments.

We would also like to take the opportunity to provide our additional comments on rules 14A.38 and 14A.39 concerning the annual review of continuing connected transactions by auditors:

1. As you are aware, the Hong Kong Institute of Certified Public Accountants is currently seeking comments from its members as well as other interested parties on the Exposure Draft of Practice Note 740 ("PN 740"). The purpose of PN 740 is to provide guidance to auditors when they are engaged to perform the above-mentioned annual review. The comment period will end on 31 December 2009. We consider that upon finalization of PN 740 HKEx should give due consideration to amending the existing wording of rules 14A.38 and 14A.39 to bring them in line with PN 740 which advocates auditors giving negative assurance on the matters set out in rule 14A.38.

2. Rule 14A.38 requires that a copy of the auditors' letter be provided to HKEx at least 10 business days prior to the bulk printing of the listed issuer's annual report. Some listed issuers may choose to bulk print their annual reports right after their boards of directors approve the announcement of their annual results. In these cases, the listed issuer would not be able to provide a copy of the auditors' letter to HKEx 10 business days prior to the bulk printing of its annual report because, at that time, its board of directors has not approved the annual results. Pursuant to the existing rule 14A.40, listed issuers are already obliged to promptly notify HKEx and publish an announcement if they know or have reason to believe that their auditors will not be able to issue an unqualified letter confirming the matters set out in rule 14A.38. We suggest that a copy of the auditors' letter should be provided to HKEx within 10 business days after the board of directors approves the announcement of the listed issuer's annual results. We believe that the suggested timing caters for different practical situations and would not be expected to cause an administrative problem on the part of HKEx.

In the event that PN 740 is adopted in its present form and the above suggestion in respect of the timing of the submission of a copy of the auditors' letter is adopted, rule 14A.38 may need to be amended as suggested as follows:

"... each year the auditors must provide a letter to the listed issuer's board of directors (with a copy provided to the Exchange within 10 business days after the board of directors approves the preliminary announcement of the listed issuer's results for the year), setting out their findings and conclusions in respect of the continuing connected transactions in accordance with Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In particular, the letter shall include the auditors' findings and conclusions on whether the continuing connected transactions:

- (1) have received the approval of the listed issuer's board of directors;
- (2) ... "

Rule 14A.39 may need to be amended as follows:

"... The listed issuer's board of directors must state in the annual report whether its auditors have provided their unqualified letter in accordance with rule 14A.38."

Yours faithfully,

*Ernst & Young*