

8 December 2017

**BY HAND AND BY EMAIL**

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

Dear Sirs,

**Consultation Paper on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments**

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 review its procedures and to ensure that the Listing Rules meet their purpose and intent in a cost-effective and efficient manner. In general, we support HKEx's initiatives to simplify and streamline the administrative procedures involved in the submission and collection of documents to enhance procedural efficiency.

The consultation paper also sets out other proposed minor Rule amendments and a number of housekeeping Rule amendments that involve no change in policy direction. We have focused our response on those proposed Rule amendments which are more relevant to our role as auditors/reporting accountants.

**CHAPTER 3: PROPOSED MINOR RULE AMENDMENTS**

**D. (1) Period of disclosure of pre-acquisition financial information on material businesses/ subsidiaries acquired by a new applicant**

We note that HKEx proposes to add a Note to Main Board Rule 4.05A/GEM Rule 7.04A to clarify that disclosure of pre-acquisition financial information on material businesses/subsidiaries acquired by a new applicant (including those accepted by HKEx to have a shorter trading record) must be for the period from the three (for Main Board) or two (for GEM) financial years immediately preceding the issue of the listing document up to the date of acquisition.

We agree to the proposal to add a Note to provide clarity. HKEx may also need to make corresponding changes to its guidance letter GL32-12.

#### **E. (1) Amendments to align the GEM Rules in respect of profit forecasts with the Main Board Rules**

Currently the GEM Rules require formal reporting of profit forecasts that are included in listing documents, announcements or circulars relating to notifiable or connected transactions or an issue of securities, which are similar to the corresponding Main Board Rules. However, GEM Rule 17.55 also applies the formal reporting requirement to any announcement or other document that contains a profit forecast, which is more onerous than the Main Board requirements. The current practice of HKEx is not to require formal reporting for profit warnings or alerts issued by GEM issuers.

We agree to the proposal to remove GEM Rule 17.55 and align the formal reporting requirements for profit forecasts in the GEM Rules with those in the Main Board Rules.

#### **H. Rule amendments relating to accounting and auditing affairs - to update audit terminology with reference to the new and revised Auditor Reporting Standards**

We suggested to HKEx in our letter of 24 October 2014 about the need to update audit terminology used in the Listing Rules and are grateful to note that HKEx has been responsive to market comments.

We agree to the proposal to update audit terminology and to adopt the following definitions:

“modified opinion”	an opinion in an accountants’ or auditors’ report which is modified (a qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements)
“modified report”	an accountants’ or auditors’ report: – (a) in which the opinion is a modified opinion; and/or (b) which contains any of the following without modifying the opinion: – (i) an emphasis of matter paragraph; and (ii) a material uncertainty related to going concern

We trust that HKEx will make corresponding changes to its FAQs 001 to 004-2017.

#### **To clarify the use of the term “modification”**

We presume that whenever the term “modification” is used, we should read it in the context of the Rule – if a Rule explicitly refers to a modified opinion, then the term “modification” in that Rule should refer to a modified opinion (e.g., Main Board Appendix 1A paragraph 35, Main Board/GEM Appendix 1C paragraph 42, Main Board Appendix 1E paragraph 35); and the same applies to Rules referring to a modified report (e.g., Main Board Rules 4.18/GEM Rule 7.22, Main Board Appendix 16 paragraphs 45(7) and 46, GEM Rules 18.50, 18.64 and 18.76, GEM Appendix 1A paragraph 35).

However, we would like to clarify the use of the term “modification” in Rules and FAQs referring to review reports (containing a review opinion), instead of accountants’ or auditors’ reports (containing an audit opinion).

Under Main Board 14.68(2)(a)(i)/GEM Rule 19.68(2)(a)(i) relating to very substantial disposals, there is no explicit requirement for reproducing the entire review report. The rule states that the circular must contain a statement that the financial information has been reviewed by the issuer’s auditors or reporting accountants and details of any modifications in the review report. HKEx also refers to modifications in auditors’ review reports on issuers’ interim results in its FAQ 004-2017.

The technical terms “modified opinion” and “modified report” relate to accountants’ or auditors’ reports (containing an audit opinion) only. To avoid confusion, HKEx may need to clarify in a new FAQ what constitutes a modification in auditors’ review reports.

#### To align GEM Rules with Main Board Rules

We understand that the proposed minor Rule amendments do not involve any change in policy direction. However, we note in Appendix II to the consultation paper the following discrepancies between the Main Board Rules and GEM Rules relating to content requirements of listing documents for equity securities issued by new listing applicants.

Main Board Appendix 1A paragraph 35:

~~“A statement of whether or not the accountants’ report is qualified contains a modified opinion by the reporting accountants and if so, such qualification modification must be reproduced in full and the reasons for such qualification modification given.”~~

GEM Appendix 1A paragraph 35

~~“A statement of whether or not the accountants’ report is qualified or modified by the reporting accountants issue a modified report and if so, such qualification or modification must be reproduced in full and the reasons for such qualification or modification given.”~~

We will leave it to HKEx to decide whether the above GEM Rule should be aligned with the corresponding Main Board Rule (or vice versa).

## **CHAPTER 4: PROPOSED HOUSEKEEPING AMENDMENTS**

### **Amendments to outdated references to the standard on the preparation of accountants’ report**

We agree to the proposal to update Main Board Rule 4.08 and GEM Rule 7.08(3) and Note to GEM Rule 7.18 to reflect the replacement of Auditing Guideline 3.340 by Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” (HKSIR 200).

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

Yours faithfully,



*Certified Public Accountants*  
Hong Kong