

By email: response@hkex.com.hk

30 November 2018

The Stock Exchange of Hong Kong Limited  
8<sup>th</sup> Floor, Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

Dear Sirs,

**Consultation Paper on Proposal relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements (the "Consultation Paper")**

We appreciate the opportunity to provide input on the proposals contained in the Consultation Paper. In general we support The Stock Exchange of Hong Kong Limited's (the "Exchange") initiative to focus on these situations, as allowing financial statements to be published with a disclaimer of opinion or adverse opinion is not in the interests of the issuer's shareholders or the market at large. In most cases, the threat of suspension of trading in the issuer's shares will focus the directors and management of the issuer on avoiding this situation, although we can envisage that there may be heightened pressure exerted on auditors to express an opinion other than a disclaimer or adverse opinion due to the significant adverse impact on the issuer.

- 1. Do you agree with the proposal to add a Rule to require trading suspension if an issuer has published a preliminary annual results announcement and its auditor has issued, or has indicated that it will issue, a disclaimer or an adverse opinion on the issuer's financial statements?**

Although we agree with the proposed introduction of the Rule as mentioned above, we would point out that there may be situations giving rise to a potential disclaimer of audit opinion that are outside of the control of the directors of the issuer. We would therefore suggest that the Exchange reserve the right to exercise discretion over the enforcement of a trading suspension as it would not be in the interests of the issuer's shareholders for the shares to be suspended if the issuer is unable to resolve the situation within a short period of time. This may be the case for example where the issuer has a going concern issue that they are working through. In that situation it may not be sensible to "lock in" the shareholders for an extended period of time with no possibility of exiting from their investment.

In terms of the practical application of the proposed Rule, it would seem to be advantageous for the Exchange to strongly encourage issuers to work with their auditors to resolve the matter in question (even if it requires the issuer to report after the reporting deadline) rather than get into the situation where a disclaimer of opinion or adverse opinion is issued, subsequent to which the issuer is required to navigate the various options to obtain a resumption of trading. This general approach would be in line with the approaches applied in the US and UK as pointed out in the Consultation Paper and would likely result in shorter overall trading suspensions and lower overall costs being incurred by the issuer.

Finally, we believe the Exchange should ensure there is an appropriate obligation placed on the directors of the issuer to inform the shareholders about how they are resolving the matter giving rise to the disclaimer of opinion or adverse opinion.

2. **Do you agree with the proposed Rule 13.50A to require the issuer to address the issues giving rise to the disclaimer or adverse opinion, provide comfort that a disclaimer or an adverse opinion in respect of such issues would no longer be required, and disclose sufficient information for investors to assess its updated financial position before trading resumption (as described in paragraph 32 of the Consultation Paper)?**

In terms of the wording of the Rule itself, we have the following observations:

- It is unclear what is meant for the issuer to have "provided comfort" that the disclaimer or adverse opinion in respect of such issues would no longer be required. The explanations in paragraph 32 of the Consultation Paper refer to comfort being obtained from the auditor, rather than the issuer providing comfort. We recommend that more specific guidance is provided in terms of the mechanics of the proposed resumption application (including the form of any comfort to be provided by the issuer, for instance whether this would be directly to the Exchange or via a public announcement), the role played by the Exchange in approving the application and the disclosures required to be provided by the issuer.
- The proposed Rule as drafted does not make reference to the specific options (set out in paragraph 32 of the Consultation Paper) that are available to satisfy the requirements to resume trading under the Rule. We recommend that, when finalised, this information is provided in the form of guidance to ensure there is clarity and consistency in this regard.
- We would also recommend that the Exchange further consider how the proposed Rule should operate in relation to disclaimers of review conclusions and adverse conclusions expressed by auditors pursuant to their reviews of issuers' interim financial information.

In terms of the various options presented in the Consultation Paper regarding trading resumption, our comments are as follows:

An audit in accordance with Hong Kong Standard on Auditing 805 (Revised) "*Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*" on a single financial statement of the issuer or a special element, account or item of a financial statement in our view is unlikely to be an appropriate method to address the original issue giving rise to the disclaimer of opinion or adverse opinion. Specifically, a disclaimer of opinion provides no assurance on the financial statements as a whole. Obtaining an audit opinion on an individual element of the financial statements would appear to leave a question-mark over the remainder of the previously published financial statements. From a practical perspective, market participants would likely find it very confusing and inconvenient to have to piece together the original financial statements with the subsequently published audited financial information (which may have been revised on the resolution of the original issue). A full audit (either on the original financial statements or a complete set of subsequent financial statements) would appear to be the most convincing and logical option to enable the trading suspension to be lifted.

Should you have any enquiries regarding our response, please get in touch with Derek Broadley at [REDACTED] or on [REDACTED].

Yours faithfully,

[REDACTED]

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
30 November 2018