

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/September-2018-Adverse-Audit-Opinion/Consultation-Paper/cp201809.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

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?

Yes

No

If your answer is "No", please give reasons for your views.

We do not agree that a trading suspension should be automatic. Rather, we recommend a rule similar to that of the UK (paragraph C19) that allows the Exchange to suspend trading in an issuer's securities where the issuer is unable to assess accurately its financial position and inform the market accordingly. The Exchange would assess on a case by case basis whether a suspension is warranted where the auditor has issued a disclaimer of opinion or adverse opinion.

We are concerned that the proposed rule will not achieve its desired objective of improving investor protection by safeguarding the quality and reliability of financial information published by listed issuers. The proposals link the company's audit report to its listing status. This would increase the pressure on the company's auditors not to issue a disclaimer of opinion or adverse opinion and create threats to their independence. In addition, the proposals could encourage opinion shopping by companies. The unintended result may be to lower the quality and reliability of financial information. The proposals would also adversely impact minority investors who would no longer be able to sell their shares.

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 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)?

Yes

No

If your answer is “No”, please give reasons for your views.

We are concerned that the proposed rule change will not achieve its desired objectives as described in our answer to question 1 above. A company's ability to resume trading would be linked to its audit report. This would put significant pressure on a company's auditors to issue a clean report in subsequent accounting periods or provide some other form of comfort that the previous disclaimer or adverse opinion would be removed and create threats to their independence. The proposals are also likely to encourage opinion shopping and more frequent changes of auditors by problem companies. The unintended result may be to lower the quality and reliability of financial information. In addition, the timeline of 18 months for Main Board issuers or 12 months for GEM issuers may not be sufficient for companies to resolve going concern issues or improve their corporate governance and internal controls.

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