

## 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.

The Exchange's relentless efforts to improve investor protection and market confidence, as can be seen from the proposed Rule 13.50A, is much lauded. However, there is another practical issue that would be introduced by the proposed Rule 13.50A, that such suspension would deprive the minority shareholders of the opportunity to pare down or exit their position through the secondary market, and thus it may dilute the intended benefits of the proposed Rule 13.50A.

A suggestion would be to put the affected issuer on a 'restricted' trading status, for example, where minority shareholders - except interested shareholders by virtue of their executive roles in the company, promoters, executive directors etc - can sell their shares in the affected issuer; and any persons - except interested shareholders, promoters, executive directors etc - who want to buy shares in the affected issuer need to declare to the Exchange that they understand the affected issuer is on 'restricted' trading status because it has published a preliminary results announcement for a financial year and its auditor issues (or indicates that it will issue) a disclaimer of opinion or an adverse opinion on its financial statements.

The suggestion above allows sell down of shares by minority shareholders only (except interested shareholders, promoters, executive directors etc) who are in the greatest need of investor protection. It also allows purchase of shares by any party (except interested shareholders, promoters, executive directors etc) on 'buyer beware' basis, thereby facilitating a smoother market order and confidence.

There is possibility that the suggestion above may induce undesirable market manipulation behaviors, a scenario of which would be the management of the affected issuer might tip off a party who can then enter into market transactions seeking financial gain e.g. as a short seller. As such, a ban of short-selling in the affected issuer could be imposed in conjunction with the 'restricted' trading status.

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.

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