

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-Pre-sent/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 are concerned about the arrangement that the mere existence of disclaimer or adverse opinion in financial statements will attract trading suspension as there can be numerous reasons leading to the disclaimer, some of which a company cannot foresee, is beyond control and without the own fault of the company. If the new rule is drafted in such a clear-cut way, where having a disclaimer or not will be the only factor for the HKEx to decide whether trading suspension shall be imposed, not only will the trading of the issuers' shares be affected adversely, it will also disrupt the daily operation of issuer as the management will have to spend extra costs and effort to deal with the trading suspension. In addition, the fund-raising capability of the issuer is greatly affected by trading suspension not only because equity issue is basically impossible, but also the event of default of almost all outstanding bonds and debt instruments of the issuer will be triggered, putting the issuer into immediate financial hardship. In light of the above, we are of the view that it will be too onerous for the HKEx to impose trading suspension just because a disclaimer appears in the audit 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 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.

Some disclaimer reasons take time to remedy, such as prolonged litigation to sue debtors for outstanding debts. If the trading is suspended before the disclaimer reasons are removed, the company will not be able to raise further funds by equity issue, which in effect lowers the chance of recovery of a company. We are concerned that if any disclaimer issuers are put under mandatory trading suspension, issuers are under pressure to avoid litigation or to reach a quick settlement in order to prevent trading suspension.

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