

## 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.

A disclaimer opinion means a lack of sufficient appropriate audit evidence or the risk of misstatement could be both material and pervasive to the financial statement. However, such opinion would be difficult to form by the auditors scientifically on non-quantitative issues. For example, going concern is a kind of judging problem. The Company can have a negative trends in operating results. Such series of losses with positive available cash or good future profitable outcome that have mitigating effects on the going concern problems in which auditor cannot predict, it is not fair to suspend or delist this kind of company.

Secondly, for issuers levered with debts would have covenants that require instant and complete repayment of principal with accrued interest after suspension. If the companies are suspended for a long period of time, the risk of loans being called or not being renewed would significantly increases, and can cause serious liquidity problems.

We are of the view that the auditor's opinion can be one of the indicators for the suspension, rather than a single indicator, which can be ordered for the suspension in several material reasons.

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.

Under the recently amended delisting rules, the exchange may delist a main board issuer after a trading suspension of a continuous 18 months. It may not be sufficient for a company in issue to resolve the corporate governance and internal control issues in 18 months. Resumption for this kind of company is difficult and therefore may have to take a longer time to get approval from the exchange.

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