

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 notice that a disclaimer of opinion results from circumstances arising during the course of the audit by reference to comprehensive accounting practices and auditing standards. Most situations causing disclaimer opinion are beyond the control of the entity. It is unfair and inappropriate for the Exchange to look at the labelling of the issuer as "disclaimer opinion" without looking at the particular circumstances of the issuer and the particular reasons for the disclaimer opinion, and to take a simplistic approach to exert uniform regulatory treatment to all issuers with disclaimer opinion. In particular, trading suspension may ultimately lead to de-listing which is the most serious form of Exchange treatment to the issuers which are unsafe for public investors to trade or unsuitable for continual trading. We are very concerned that under the proposed consultation, victims suffering from difficulties are penalized by removing its fund-raising capability. We suggest to continue with the existing disclosure-based and post-vet practices currently adopted by the Exchange, as this allows transparency for market investors and allows flexibility for regulator to take different actions based on different circumstances causing disclaimer opinions.

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 disagree with the proposed consultation for reasons set out in Question 1 above. We disagree with putting disclaimer opinion issuers under trading suspension until the issues are resolved, as suspended issuers are under great hardship to survive due to loss of confidence issues. Creditors start to sue a listed issuer under suspension. Banks immediately call for loan repayment. Suppliers stop giving normal credit terms. Customers cancel purchase orders. Investors are reluctant to put in cash, since the issuer cannot even issue publicly-tradable shares. The trading suspension is the most serious type of consequence which should be avoided save in the extreme case where the regulator forms a certain conclusion that it is unsafe for the listed shares of the issuer to continue trading in the market, or that the issuer is no longer suitable for listing. Trading suspension is, in real life, the ultimate penalty which should be reserved for the most undisciplined issuer, and should not be the action lightly taken. In many cases of audit disclaimer, the interest of public investors is better served by information disclosure under the current rule requirement.

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