

## 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.

Although my address is "Yes", I would like to make 2 further points:  
First, I cannot understand why this proposed amendment only applies to annual results. Should similar trading suspension requirements also apply to adverse interim reviews?  
Second, my experience as an INED (and chairman of Audit Committee) is that the management is often aware of the likelihood of a disclaimer or adverse audit opinion well ahead of the actual announcement date. At the latest, the Audit Committee meeting to preview the financial announcement will be the venue where the absence of a clean opinion is discussed. At that point, a PSI situation must have arisen, and the Board is under an obligation to inform the market. So the application of this proposed Rule 13.50A will always prompt the question: "Why hasn't the management made a PSI announcement earlier?" which may already have triggered a suspension requirement at an earlier date.

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.

The "Resumption" part of Rule 13.50A appears to say that resumption does not necessarily conditional on removal of the adverse or disclaimer opinion. It is effective when the issuer "Has addressed the issues...,provided comfort...,disclosed sufficient information...etc.". I agree that this is in line with the "caveat emptor" principle and I support this approach. However, trading in these securities when the issuer "has addressed the issues...etc." but before the adverse or disclaimer opinion is removed must be carried out with extra caution. My suggestion is that there should be a warning mechanism to highlight these "high risk" securities. For example, the stock code of these issuers may be annexed "Q" to indicate that their audit report has been qualified.

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