

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.

I suggest to impose the new rule to adverse opinion only. The Exchange should look at the disclaimer opinion on individual basis as certain disclaimers are inherent which the listed companies cannot do anything to satisfy the auditors, e.g. in the case when the listed company acquires a start-up company with a consideration which generate a huge goodwill. The auditors may not satisfy with the impairment test based on the accounting standard in which the auditors are required to review the projected future cash flow. Because of lacking historical figures of the start-up, the auditors may find it difficult to rely on management expectation and cash flow projection. This inherent risk cannot be eliminated until in the later years when there is track records and the start-up commences to have sales contracts. The transaction may be a notifiable transaction approved by shareholders.

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.

18 months may not be enough for the listed company to rectify the matter as auditors may require a longer period, say 2 financial periods to remove the qualifications. This often happens when the qualifications are about the lack of historical supporting figures for the acquired assets.

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