

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 of opinion depends on bases and circumstances set out in the standard of auditing and the inability to obtain sufficient appropriate audit evidence may, as the standard of auditing itself describes, arise from a wide range of circumstances some of which being beyond the control of the entity. It is unfair and inappropriate to equate all issuers with disclaimer opinion with unfitness of continual trading or listing. We are of the view that the existing disclosure-based, post-vet regime under the Listing Rules is the adequate and satisfactory approach in handling the different circumstances of issuers with disclaimer opinions.

In April 2018, CSRC issued the "Rules for the Compilation of Information Disclosure by Companies Offering Securities to the Public No. 14 - Handling of Matters involved in Modified Audit Opinions (2018 Revision)" abolishing the mandatory trading suspension requirement formerly applicable to A-shares with modified opinions and replaced it by a set of disclosure-based new rules similar to the existing rules in Hong Kong. We agree with the approach taken by CSRC and consider that investor protection should be better served by information disclosure rather than mandatory suspension so far as modified opinion issuers are concerned.

In order to provide additional warning to investors regarding the trading risks of issuers with disclaimer opinion, the Exchange may want to consider the suggestion of commentators of putting a "D" suffix to the stock short names.

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.

Circumstances leading to disclaimer opinions are sometimes beyond the issuers' control or fault, such as business downturn, cash flow shortage and going concern uncertainties. Putting these issuers in trading suspension limits their fund-raising capability, reduces their chance of recovery and makes their ultimate failure self-fulfilling.

Imposing trading suspension on issuers with disclaimer opinion due to litigation or dispute is essentially putting these issuers under pressure of reaching a quick settlement with business counterparties or disposing the problematic assets quickly without having the chance to bargain for the best available terms. While these business consideration may not be on primary concern of the Exchange, we are of the view that the policy reason for suspending issuers with disclaimer opinions is not strong enough to justify the unfairness to the affected issuers. For the reasons explained in Question 1 above, we hold the view that investor protection should be better served by information disclosure under the existing regime, rather than the mandatory suspension as proposed.

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