

Issued on: 7 December 2018

**Re: Consultation Paper on Proposal relating to
Listed Issuers with Disclaimer or Adverse
Audit Opinion on Financial Statements**

In relation to the captioned Consultation Paper, we at The Hong Kong Institute of Directors present our views and comments.

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General comments

HKIoD supports the Proposal.

Investors should need proper information to base their investment decisions on. Financial information about an issuer is one aspect of such information.

Audited financial information may have its own “limits”, but an audit according to accepted standards do provide a certain reference frame to evaluate the issuer. A clean expression of opinion following the audit, however, is essential to give confidence that there is no material and pervasive risk of misstatement.

A disclaimer of opinion or an adverse opinion would not meet the standard of a clean expression of audit opinion. There is a rational basis to suspend trading of securities when its underlying financial position cannot be cleanly expressed according to audit standards.

The proposal would permit trading to resume once the issuer has:

- addressed the issues giving rise to the disclaimer or adverse opinion,
- provided comfort that a disclaimer or adverse opinion in respect of such issues would no longer be required, and
- disclosed sufficient information to enable investors to make an informed assessment of its financial position.

Issuers in a continuous suspension for 18 months (12 months for GEM issuers) may be made to delist under current Rules. HKIoD would prefer a longer timeline for issuers to seek a revival. We nonetheless agree that the Proposal would have the effect of prompting subject issuers to address the issues giving rise to the disclaimer or adverse opinion.

An issuer’s board would have the responsibility to ensure a proper risk management and internal control system. To the extent there are issues giving rise to a disclaimer or adverse opinion, the board would also be in the position (though circumstances may not always make it possible) to direct proper information to be provided to the market as comfort.

Specific consultation questions

Subject to our general comments above, we state our responses to specific questions as set out in the Consultation Paper as follows:-



Question 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? If not, why?

HKIoD response:

➤ AGREE

Question 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 above)? If not, why?

HKIoD response:

➤ AGREE

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