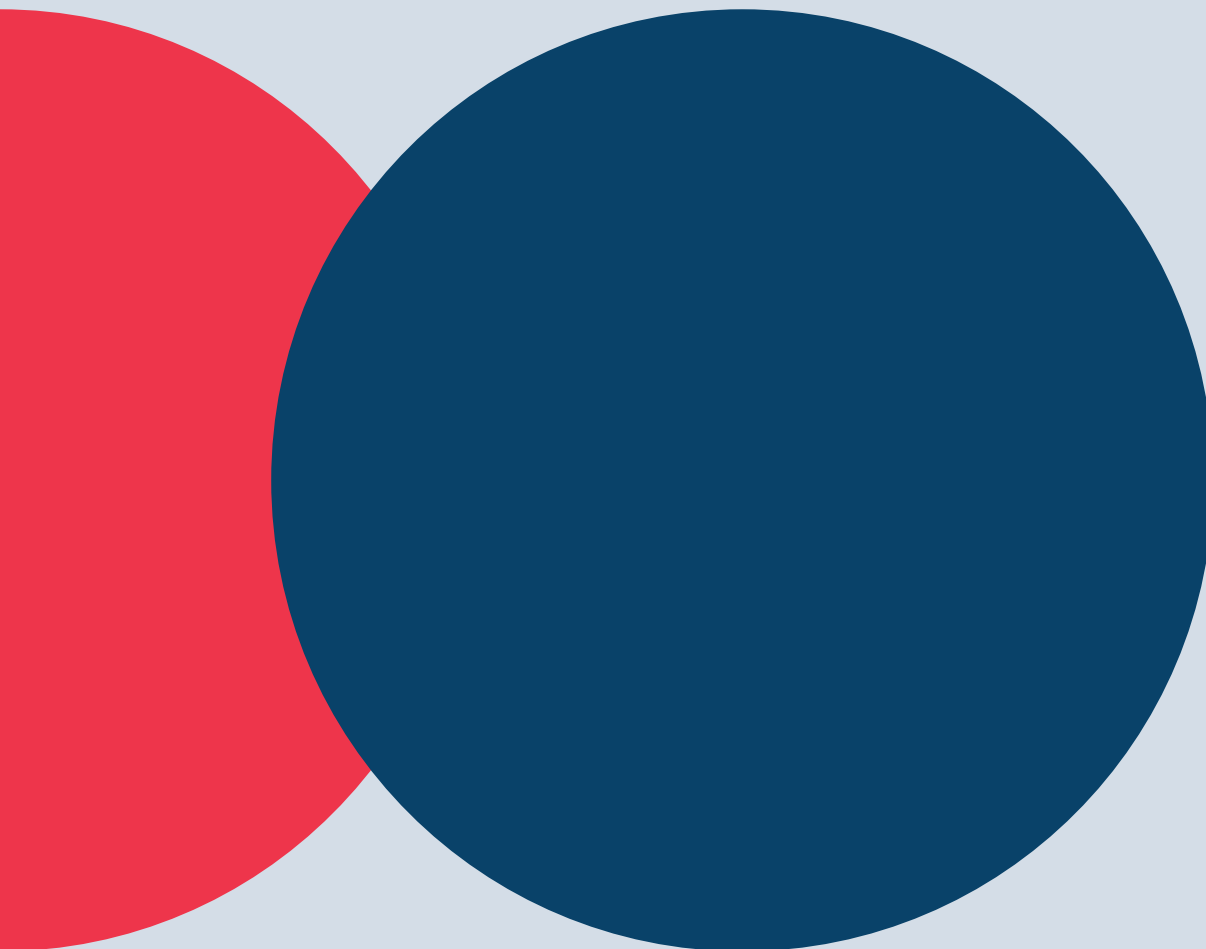


September 2018

**CONSULTATION PAPER**

PROPOSAL RELATING TO LISTED ISSUERS WITH  
DISCLAIMER OR ADVERSE AUDIT OPINION ON  
FINANCIAL STATEMENTS



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## EXECUTIVE SUMMARY

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1. This consultation seeks market views on our proposal to introduce a specific suspension requirement applicable to listed issuers with disclaimer or adverse audit opinion on their financial statements.
2. Under the proposed Rule 13.50A:
  - The Exchange will normally require suspension of trading in an issuer's securities if the issuer publishes a preliminary results announcement for a financial year and the auditor has issued, or has indicated that it will issue, a disclaimer or adverse opinion on the issuer's financial statements; and
  - the suspension will normally remain in force until 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 positions.

Once suspended, the issuer must take action to resolve the issues giving rise to the disclaimer or adverse opinion to bring itself into Rule re-compliance and resume trading. Under the current delisting Rules, issuers may be delisted after their continuous suspension for 18 months (or 12 months for a GEM issuer).

3. A disclaimer (or adverse) opinion on the financial statements indicates that the risk of misstatements could be both material and pervasive, and investors may not have sufficient information to make an informed assessment of the issuer's financial position. The proposal seeks to afford better investors' protection by safeguarding the quality and reliability of financial information published by listed issuers. It would also encourage issuers to strengthen their risk management and internal control systems, and to resolve audit issues promptly with their auditors.
4. We propose that the proposed Rule 13.50A will apply to issuers' preliminary annual results announcements for financial years commencing on or after 1 January 2019. For the avoidance of doubt, in respect of issuers currently with disclaimer or adverse opinion on their financial statements, unless the issuers continue to receive such opinion on their financial statements for the financial years commencing on or after 1 January 2019, they will not be required to suspend trading under the proposed Rules.
5. The proposed Rule 13.50A would not apply to financial statements with a qualified opinion or a clean opinion with an emphasis of matter. The issuers are expected to promptly resolve the underlying issues with a view to removing the audit modifications.

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## CHAPTER 1: INTRODUCTION

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6. The Exchange reviews its Listing Rules from time to time to ensure that they address developments in the market and international best practice, and also represent acceptable standards which help promote investor confidence.
7. Under the current Rules, an issuer must announce its preliminary annual results based on its financial statements that have been agreed with the auditor. Where the auditor's report on the financial statements is likely to be modified, the issuer is required to disclose additional information, including details of the modification, in the results announcement and annual report.
8. The purpose of this consultation is to seek market views on our proposal to impose requirements applicable to periodic financial reporting with a view to improving the quality and reliability of annual results published by issuers.
9. As set out in the Consultation Paper on Backdoor Listing, Continued Listing Criteria and Other Rule Amendments published in June 2018, the Exchange has noted market concerns about problematic behaviours of some listed issuers in recent years and proposed Rule amendments to address identified issues in a more effective manner. This consultation forms part of the Exchange's holistic review of the continuing listing obligations of issuers to address market issues and maintain the quality and reputation of the Hong Kong market.
10. **Chapter 2** of this paper sets out the background information on the current Rules and the types of modified audit opinions on financial statements, the issue relating to disclaimer or adverse opinion on financial statements, and our proposals to address the issue. The draft Rule amendments are in **Appendix I**.
11. All Rule references are to the Main Board Rules unless otherwise stated. The proposal applies equally to the GEM Rules.

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## CHAPTER 2: ISSUE AND PROPOSAL

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### A. Current Rules

#### *Annual results announcements and audited financial statements*

12. Under the Rules, an issuer must announce its preliminary annual results within 3 months after the end of its financial year, and such announcement shall be based on the issuer's financial statements which shall have been agreed with its auditor<sup>1</sup>. Where the auditor's report on the financial statements is likely to be modified (see also Part B below for further information), the issuer is required to disclose additional information in the results announcement and annual report, including details of the modification<sup>2</sup>.

#### *Risk management and internal control*

13. The Corporate Governance Code<sup>3</sup> sets out the expected standards for reporting and the maintenance of appropriate and effective risk management and internal control systems. For example, under Code Provision C.1, the board should present a balanced, clear and comprehensive assessment of the company's performance, position and prospects. Under Code Provision C.2, the board is responsible for evaluating and determining the nature of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems.

#### *Trading suspension and delisting*

14. Under the Rules, the Exchange may suspend or cancel the listing of an issuer for the protection of investors or the maintenance of an orderly market<sup>4</sup>. As an example, suspension of trading would be required where an auditor issues a disclaimer of opinion due to possible accounting irregularities. The Rules also provide a specific requirement to suspend trading in the securities of an issuer that fails to publish its preliminary annual results announcement within three months after its financial year end<sup>5</sup>.

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<sup>1</sup> Rule 13.49(1) and (2)

<sup>2</sup> Paragraphs 2, 3 and 45 of Appendix 16 to the Rules

<sup>3</sup> Appendix 14 to the Rules

<sup>4</sup> Rule 6.01

<sup>5</sup> Rule 13.50

15. Once suspended, the issuer must remedy the issues giving rise to the suspension to bring itself into Rule re-compliance and resume trading. Under the Rules, the Exchange may delist a Main Board issuer after a continuous trading suspension of 18 months<sup>6</sup> (GEM issuer: 12 months).

## **B. Modified audit opinion on issuers' financial statements**

16. Issuers are obliged to provide investors with financial statements which fairly present their financial positions and performance and are free from material misstatements. The auditor of an issuer is responsible for forming an opinion indicating that reasonable assurance has been obtained that the issuer's financial statements as a whole are free from material misstatement (whether due to fraud or error) and that they are fairly presented in accordance with applicable accounting standards.
17. There are circumstances where the auditor may conclude that a modification to its opinion on the financial statements is necessary. Under the Hong Kong Standard of Auditing 705 (Revised) "Modifications to the Opinion in the Independent Auditor's Report"<sup>7</sup>, there are three types of modifications<sup>8</sup>:
  - (i) **Qualified opinion** – The auditor would express a qualified opinion when it (a) having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial statements; or (b) is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

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<sup>6</sup> Rule 6.01A

<sup>7</sup> For listed issuers incorporated in other jurisdictions, their accounts must be audited to a standard comparable to that required by the Hong Kong Institute of Certified Public Accountants, the International Auditing and Assurance Standards Board of the International Federation of Accountants, or (for PRC issuers) the standards issued by the China Auditing Standards Board of the China Ministry of Finance.

<sup>8</sup> There are similar provisions under International Standards on Auditing and China Standards on Auditing.

**Disclaimer of opinion** - The auditor would disclaim an opinion when (a) it is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive<sup>9</sup>; or (b) in extremely rare circumstances involving multiple uncertainties, it concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

- (ii) **Adverse opinion** – The auditor would express an adverse opinion if having obtained sufficient appropriate audit evidence, it concludes that misstatements, individually or in aggregate, are both material and pervasive to the financial statements.

When issuing a modified opinion, the auditor must describe the matter(s) giving rise to the modification.

18. As mentioned in paragraph 12 above, the current Rules require the issuer to disclose additional information to enable investors to understand the issues giving rise to the audit modifications and their impact on the issuer's financial positions.

### **C. Requirements in other markets**

19. The US and the UK have regulations that effectively discourage the issue of disclaimer or adverse opinions. In the US, the regulations of the Securities and Exchange Commission require a clear expression of an opinion on financial statements. This requirement is not satisfied where an auditor issued a disclaimer or adverse opinion on the financial statements. In the UK, the Financial Conduct Authority may suspend trading in an issuer's securities where the issuer is unable to assess accurately its financial position and inform the market accordingly. This may be the case where the auditor issues a disclaimer or adverse opinion and accordingly, suspension may be warranted. In practice, issuers may defer the publication of their results until the resolution of potential audit modifications.

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<sup>9</sup> "Pervasive" is a term used, in the context of misstatements, to describe the effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (a) are not confined to specific elements, account or items of the financial statements;
- (b) if so confined, represent or could represent a substantial proportion of the financial statements; or
- (c) in relation to disclosures, are fundamental to users' understanding of the financial statements.



## D. Issue

20. The current Rules on periodic financial reporting are aimed at providing investors with timely financial information of issuers to enable investors to make an informed assessment of the issuers. The Rules also safeguard the reliability of annual financial statements by requiring such information to be audited by independent auditors.
21. Where an issuer publishes financial statements with a disclaimer of opinion, it indicates that the risk of misstatements on the financial statements could be both material and pervasive. For the 2017 financial year end, 43 issuers<sup>10</sup> published audited financial statements with a disclaimer of opinion involving the following audit modifications:
- (i) **Material uncertainties related to issuers' abilities to continue as a going concern** – these issuers recorded matters in their financial statements (e.g. incurred losses, recorded net current liabilities and/or net liabilities, overdue borrowings and/or breach of bank covenants) which casted doubts on their ability to continue as a going concern. While management may have proposed measures to improve their liquidity and financial position, these issuers might not be able to operate as a going concern should they fail to achieve these measures, and adjustments would have to be made to write down the carrying values of assets to their recoverable amounts, to provide for further liabilities and/or to reclassify non-current assets and liabilities.
  - (ii) **Limitation of scope on valuation of assets (e.g. intangible assets, property plant and equipment, prepayments and deposits)** – the auditors were not satisfied with the valuation of assets as they were unable to obtain sufficient appropriate audit evidence, for example, lack of books and records and/or supporting documents, suppliers being non-contactable, or key assumptions and directors' estimate of future events used in valuations unsupported. Examples of these circumstances include:
    - Delays in business plans and/or questions about the likelihood of success of the relevant issuers' businesses. This may arise from material uncertainties i) about the issuer's ability to implement business plans or raise funds as needed, or ii) involving the outcome of material litigation or commercial negotiations that might affect the ownership and value of the relevant assets, or iii) involving the likelihood and timing of regulatory approvals for business operations;

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<sup>10</sup> Excluding 14 long suspended companies.

- de-consolidation of subsidiaries from the group's consolidated financial statements as the issuers were unable to exercise control over them and have no access to the books and records;
- failure to substantiate carrying amounts of prepayments or advances as suppliers are non-contactable or records are unavailable;
- failure to substantiate carrying amounts of newly acquired investments where the key assumptions used in the valuation were unsupported due to insufficient evidence or due diligence;
- certain books and records of the issuers being lost or inaccessible after a change in the board of the issuers; and
- fire or natural disaster resulting in loss of primary evidence.

**Appendix II** sets out examples of issuers with disclaimer of opinions on their financial statements.

22. In the above cases, the modifications arose mainly from failure to obtain documents following material changes to the board and non-cooperation from the former management; failure to maintain proper records due to internal control issues; or differences in judgement between the directors and the auditors (for example, on whether the issuer can continue as a going concern, or on asset valuations based on management assumptions and estimates).
23. We have concerns about issuers publishing financial statements with disclaimer of opinions as investors can not properly assess the issuers' financial positions. In some cases, there may be material deficiencies in the issuers' internal control and risk management measures applied to safeguard assets, which raise questions about whether the directors have fulfil their fiduciary duties and duties of skill, care and diligence required under the Rules.
24. Of the 43 issuers that received disclaimer of opinions on their 2017 financial statements, 24 issuers received disclaimer of opinions for two or more consecutive financial years<sup>11</sup>. Repeated disclaimer of opinions raise particular concerns about whether the issuers have acted promptly to resolve audit issues with their auditors.

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<sup>11</sup> Of the 24 issuers, 5, 8, 5 and 6 received disclaimer of opinions for 2, 3, 4, and 5 or more consecutive financial years.

25. We have similar concerns about issuers publishing financial statements with adverse opinions<sup>12</sup> as it indicates serious disagreements with the management and the misstatements are both material and pervasive to the financial statements. Our proposal and discussions below are equally applicable to financial statements with disclaimer or adverse opinions.

## **E. Proposal**

26. We propose to add a new Rule 13.50A to require trading suspension where an issuer has published a preliminary annual results announcement and its auditor has issued, or has indicated that it will issue, a disclaimer or adverse opinion on the relevant financial statements. Trading in the securities may 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.
27. For the avoidance of doubt, this proposed Rule would not apply to financial statements with a qualified opinion or a clean opinion with an emphasis of matter. The issuers are expected to promptly resolve the underlying issues with a view to removing the audit modifications.

### **(1) To add a specific suspension requirement**

28. We consider that the proposed suspension requirement would enhance investors' protection by improving the quality and reliability of financial information, encourage issuers to maintain appropriate and effective risk management and internal control systems, and where necessary, require them to act promptly to resolve audit issues with their auditors.
29. Currently, some issuers delay the publication of their preliminary annual results announcements to resolve audit issues. Under the current Rules, these issuers are required to publish management accounts and to suspend trading in their securities until the results announcements (as agreed with their auditors) are published. This is because the publication of management accounts would not provide reliable financial information for the investing public. The proposed Rule 13.50A is in line with this Rule requirement.

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<sup>12</sup> An adverse opinion is rarely issued. No issuers received an adverse opinion for their 2017 financial statements.

*Exceptions to the suspension requirement*

30. There may be circumstances where the underlying issue was addressed during the financial year but the auditor expressed a disclaimer of opinion on the results and the closing financial position for the financial year. For example, an issuer may have reconstructed its accounting records after a fire accident and its auditors disclaimed the results and closing financial position due to inherent limitations caused by the loss of primary evidence. The incident would not have ongoing effect, but there would be a modification in the next year's auditors report relating to the opening financial position. In these circumstances, the issuer had taken actions to address the underlying issue before the publication of the financial results and disclosed additional information on the impact of the incident on its financial position. In this example, it would not require trading suspension.

*Disclaimer of opinion due to going concern*

31. Of the 43 issuers that received disclaimer of opinions on their 2017 financial statements, 13 issuers received a disclaimer of opinion due to going concern only<sup>13</sup>. We have considered, and decided not to make an exemption to the suspension requirements in those circumstances. This is because a disclaimer of opinion indicates that the auditor cannot obtain sufficient evidence regarding the existence of plans management has put in place or the existence of other mitigating factors to support its use of the going concern basis of accounting in the preparation of the financial statements, and the risk of misstatements could be both material and pervasive. In addition, an adverse opinion would indicate that in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, and management may be required to prepare the financial statements on another basis (e.g. liquidation basis). In either case, our concern that investors may not have reliable information to make an informed assessment of the issuer's financial position equally applies.

**Q1 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?**

<sup>13</sup> This includes 1, 2, 3, 1 and 6 issuers with disclaimer of opinion on their financial statements for 5, 4, 3, 2 consecutive financial years and 1 financial year respectively.

## **(2) Criteria for trading resumption**

32. Once suspended, an issuer must remedy the issues to bring itself into Rule re-compliance and resume trading. Under proposed Rule 13.50A, the issuer should resolve the issues giving rise to a disclaimer or adverse audit opinion, produce financial information to reflect the updated financial position, and provide comfort from the auditor that the disclaimer or adverse opinion would be removed. For example, this may involve:
- (i) a full financial year audit<sup>14</sup> or a special interim audit of the issuer's financial statements (see example in paragraphs 35 and 36); or
  - (ii) a special engagement of the auditor to perform audit on a single financial statement of the issuer (e.g. the statement of financial position) or a specific element, account or item of a financial statement<sup>15</sup>.
33. Depending on the nature of the underlying issues, the issuer may resume trading where it has addressed the issues but continues to receive a disclaimer of opinion on its financial statements, provided that the modification does not detract the auditors' assurance concerning the closing balances of the financial statements for the financial period following trading resumption.
34. We consider that allowing the issuer to resume trading after the issue is addressed (whilst it may continue to receive a disclaimer of opinion) will maintain the principle that suspension should be kept to a minimum in the interest of shareholders, while at the same time protect investors through providing appropriate disclosures.

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<sup>14</sup> For example if the issuer is suspended due to a disclaimer of opinion on its FY2019 financial statements, this may require i) an audit of the issuer's financial statements for FY2020; or ii) an update audit of the FY2019 financial statements.

<sup>15</sup> Under HKSA 805 (Revised), the auditor can perform an audit of a single financial statement (e.g. statement of financial position) or of a specific element, account or item of a financial statement (e.g. accounts receivable). The auditor shall apply the requirements in HKSA 700 (Revised) in forming an opinion on whether the single financial statement or an element of a financial statement (i) presents fairly, in all material respects, or (ii) gives a true and fair view, in accordance with the applicable financial reporting framework. The appropriateness of this comfort would depend on the circumstances of the issuer giving rise of the modified opinion.

35. For example, an issuer's failure to access the books and records of a subsidiary might result in a disclaimer of opinion on the issuer's financial statements for FY2019. Under the proposal, trading in the issuers' securities would be suspended immediately upon the issuer's release of the FY2019 results announcement in March 2020. If the issuer disposes of the subsidiary in May 2020, the FY2020 financial statements may still receive a modification on the statement of profit or loss but not the closing balances of the statement of financial position. The issuer may resume trading upon the release of the results announcement for FY2020 in March 2021 (despite a disclaimer of opinion).
36. Alternatively, the issuer may ask the auditor to perform an interim audit and release its audited interim results in August 2020 with a disclaimer of opinion on its statement of profit or loss (but not closing balance of statement of financial position as at 30 June 2020) and seek resumption immediately thereafter. In this case, the FY2020 annual results (which includes the 2020 interim results) published after trading resumption may still receive a disclaimer of opinion on the FY2020 statement of profit or loss.

*Remedial period*

37. Under the delisting Rules, the Exchange may delist a Main Board issuer after its continuous suspension of 18 months (or 12 months for a GEM issuer) (the **remedial period**). The remedial period allows issuers to remedy issues giving rise to trading suspension and incentivize them to act promptly to remedy those issues.
38. As set out in paragraph 24 above, 24 issuers received a disclaimer of opinion for two and three or more consecutive financial years, of which 17 involved disclaimer of opinions due to going concern issues (or multiple reasons including going concern), and 7 other modifications include issues involving asset valuation and recoverability of prepayments or receivables. The repeated disclaimer of opinions raise particular concerns about whether the issuers have acted promptly to resolve audit issues.
39. We consider that the remedial period would give sufficient time for issuers to resolve issues with their auditors while incentivizing them to do so promptly. Whilst issuers can seek different forms of comfort from auditors on the resolution of the audit issues to lift the trading suspension, the remedial period would allow sufficient time for issuers to publish their audited financial statements for the following financial year after trading suspension to demonstrate that the underlying issue has been resolved and matters reviewed by auditors (see paragraph 32 above).

**Q2** *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?*

**F. Proposed effective date**

40. We propose to apply the proposed specific suspension requirement under new Rule 13.50A to issuers' preliminary annual results announcements for the financial years commencing on or after 1 January 2019. For the avoidance of doubt, in respect of issuers currently with disclaimer or adverse opinion on their financial statements, unless the issuers continue to receive such opinion on their financial statements for the financial years commencing on or after 1 January 2019, they will not be required to suspend trading under the proposed Rules.

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## **APPENDIX I: DRAFT AMENDMENTS TO THE LISTING RULES**

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### **A. Proposed Main Board Rule**

13.50A The Exchange will normally require suspension of trading in an issuer's securities if it publishes a preliminary results announcement for a financial year as required under rules 13.49(1) and (2) and the auditor has issued, or has indicated that it will issue, a disclaimer of opinion or an adverse opinion on the issuer's financial statements. The suspension will normally remain in force until 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 positions.

### **B. Proposed GEM Rule**

17.49B The Exchange will normally require suspension of trading in an issuer's securities if it publishes a preliminary results announcement for a financial year as required under rule 18.49 and the auditor has issued, or has indicated that it will issue, a disclaimer of opinion or an adverse opinion on the issuer's financial statements. The suspension will normally remain in force until 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 positions.



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## APPENDIX II: EXAMPLES OF ISSUERS WITH DISCLAIMER OF OPINION ON THEIR FINANCIAL STATEMENTS

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### Company A – Going concern

1. **FY2015** - The auditor expressed a **disclaimer of opinion** on the financial statements due to material uncertainties about the company's ability to continue as a going concern.
2. In 2016, the company completed an equity fundraising for repayment of debts and working capital, and issued convertible bonds to settle certain amounts due to creditors. There was also improvement in the company's operating performance during the year.
3. **FY2016** - The auditor issued a **clean opinion** with an emphasis of matter relating to the going concern issue.

### Company B – Going concern and scope limitation (intangible assets)

1. In December 2015, the company acquired certain technology know-how relating to the manufacturing of certain material-based products. During 2016, the company engaged some third parties for the research and development of the products.
2. **FY2016** - The auditor expressed a **disclaimer of opinion** on the financial statements because:
  - (i) the auditor was not provided with sufficient information to satisfy itself the impairment assessment for the technology know-how intangible assets recorded by the company and the recognition of certain development costs as an intangible asset (e.g. the key assumptions adopted in the valuation of the assets were not supportable, and there were very limited details in the feasibility of the marketing plans for the products); and
  - (ii) there were material uncertainties about the company's ability to continue as a going concern.
3. For the FY2017 audit, the company's directors discussed the issues with its auditor, and provided additional information relating to valuation of the intangible assets, including the latest business plans with market analysis, business model and marketing plan for the products, and the updated financial model with financial data and sale record of the products. In addition, the company had obtained banking facilities to meet its funding needs.
4. **FY2017** – The auditor issued a **clean opinion** with an emphasis of matter relating to the going concern issue.

### **Company C – Scope limitation (de-consolidation of subsidiaries)**

1. In 2015, the company acquired majority interest in two target companies and treated them as subsidiaries. In June 2016, there was a change in the single largest substantial shareholder of the company. The new substantial shareholder was also appointed as the company's executive director and chief executive officer.
2. Since mid-2016, the company was denied access to the books and records of the target companies due to disputes with another shareholder of the subsidiaries. The directors considered that the company had lost its control over these subsidiaries and de-consolidated them from the group's consolidated financial statements as from the beginning of FY2016. The company recorded substantial losses on de-consolidation of the subsidiaries and impairment on the amounts due from the subsidiaries.
3. **FY2016** – The auditor expressed a **disclaimer of opinion** on the financial statements. This was because the company's auditor was not provided with sufficient information to satisfy itself whether it was appropriate to de-consolidate the subsidiaries from the consolidated financial statements from the beginning of the year. In addition, due to the lack of complete sets of books and records of the subsidiaries, the auditor was unable to obtain sufficient evidence to determine whether the net loss on de-consolidation and impairment loss on the amounts due from the subsidiaries were free from material misstatement.
4. The company had taken legal actions against the other shareholder and the subsidiaries in 2016 and 2017, but it was unable to exercise control over the assets and operations of the subsidiaries.
5. **FY2017** – The auditor issued a **qualified opinion** due to scope limitation on the opening balances and corresponding figures.

### **Company D – Scope limitation (inventories and investments)**

1. In October 2016, there was a change in the single largest substantial shareholder of the company. Subsequently, there were changes to the company's board of directors.
2. **FY30/6/2017** – The auditor expressed a **disclaimer of opinion** on the financial statements because it was unable to obtain sufficient evidence relating to:
  - (i) the value of the inventories and the impairment losses recognized for the year. There were inconsistencies in the findings of the expert's review (on a test basis) in the current year and that performed by another expert in the previous year; and

- (ii) the value of certain investments in private companies and the impairment losses recognized for the year. The company was unable to obtain necessary information from the investee companies' management to assess the recoverability of the investments.
- 3. The company took the following actions to address the issues:
  - (i) It engaged the expert to perform a detailed review of the inventories to assess their recoverable amount as at 31 December 2017 and made further impairment.
  - (ii) Based on further investigations and legal opinion, the company considered that the recoverable amount of the investments was zero.
- 4. **Special audit** – The company engaged the auditor to conduct a special audit on the statement of assets and liabilities as at 31 December 2017 according to HKSA 805. The auditor issued a **clean opinion**.

#### **Company E – Scope limitation (receivables and prepayments)**

- 1. During the FY2013 audit, the auditor was unable to obtain sufficient evidence to verify whether certain monies received by the company's subsidiary through third parties' bank accounts after the year end date were settlements from its customers. In addition, the auditor was not satisfied with the directors' assessment and judgment on the recoverability of certain long outstanding receivables of the group.
- 2. **FY2013** – The auditor expressed a **disclaimer of opinion** on the financial statements because the auditor was unable to obtain sufficient evidence relating to:
  - (i) the accuracy and recoverability of the receivables from certain customers of the subsidiary, and the validity of the subsidiary's income and receivables arising from some transactions;
  - (ii) the accuracy and recoverability of certain trade receivables and prepayments of the group; and
  - (iii) the recoverability of the amount due from a shareholder.
- 3. In 2014, the issuer disposed of the subsidiary mentioned in paragraph (i) above. The receivables and prepayments described in paragraphs (ii) and (iii) were partly settled or utilised, with the remaining prepayments fully impaired.
- 4. **FY2014** – The auditor expressed a **disclaimer of opinion** due to the scope limitation in respect of the relevant balance sheet items as at 31 December 2013. Any adjustments to these balances would have a consequential effect on the loss of disposal of the subsidiary and the impairment loss for the prepayments (if any) for FY2014. The auditor's report also included an emphasis of matter relating to the going concern issue.

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## **APPENDIX III: PRIVACY POLICY STATEMENT**

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Hong Kong Exchanges and Clearing Limited, and from time to time, its subsidiaries (together the "**Group**") (and each being "**HKEX**", "**we**", "**us**" or "**member of the Group**" for the purposes of this Privacy Policy Statement as appropriate) recognise their responsibilities in relation to the collection, holding, processing, use and/or transfer of personal data under the Personal Data (Privacy) Ordinance (Cap. 486) ("**PDPO**"). Personal data will be collected only for lawful and relevant purposes and all practicable steps will be taken to ensure that personal data held by us is accurate. We will use your personal data which we may from time to time collect in accordance with this Privacy Policy Statement.

We regularly review this Privacy Policy Statement and may from time to time revise it or add specific instructions, policies and terms. Where any changes to this Privacy Policy Statement are material, we will notify you using the contact details you have provided us with and, where required by the PDPO, give you the opportunity to opt out of these changes by means notified to you at that time. Otherwise, in relation to personal data supplied to us through the HKEX website or otherwise, continued use by you of the HKEX website or your continued relationship with us shall be deemed to be your acceptance of and consent to this Privacy Policy Statement, as amended from time to time.

If you have any questions about this Privacy Policy Statement or how we use your personal data, please contact us through one of the communication channels set out in the "Contact Us" section below.

We will take all practicable steps to ensure the security of the personal data and to avoid unauthorised or accidental access, erasure or other use. This includes physical, technical and procedural security methods, where appropriate, to ensure that the personal data may only be accessed by authorised personnel.

Please note that if you do not provide us with your personal data (or relevant personal data relating to persons appointed by you to act on your behalf) we may not be able to provide the information, products or services you have asked for or process your requests, applications, subscriptions or registrations, and may not be able to perform or discharge the Regulatory Functions (defined below).

## **Purpose**

From time to time we may collect your personal data including but not limited to your name, mailing address, telephone number, email address, date of birth and login name for the following purposes:

1. to process your applications, subscriptions and registration for our products and services;
2. to perform or discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller (as defined in the Securities and Futures Ordinance (Cap. 571)) ("Regulatory Functions")
3. to provide you with our products and services and administer your account in relation to such products and services;
4. to conduct research and statistical analysis;
5. to process your application for employment or engagement within HKEX to assess your suitability as a candidate for such position and to conduct reference checks with your previous employers; and
6. other purposes directly relating to any of the above.

## **Direct marketing**

Where you have given your consent and have not subsequently opted out, we may also use your name, mailing address, telephone number and email address to send promotional materials to you and conduct direct marketing activities in relation to HKEX financial services and information services, and financial services and information services offered by other members of the Group.

If you do not wish to receive any promotional and direct marketing materials from us or do not wish to receive particular types of promotional and direct marketing materials or do not wish to receive such materials through any particular means of communication, please contact us through one of the communication channels set out in the "Contact Us" section below. To ensure that your request can be processed quickly please provide your full name, email address, log in name and details of the product and/or service you have subscribed.

## **Identity Card Number**

We may also collect your identity card number and process this as required under applicable law or regulation, as required by any regulator having authority over us and, subject to the PDPO, for the purpose of identifying you where it is reasonable for your identity card number to be used for this purpose.

## **Transfers of personal data for direct marketing purposes**

Except to the extent you have already opted out we may transfer your name, mailing address, telephone number and email address to other members of the Group for the purpose of enabling those members of the Group to send promotional materials to you and conduct direct marketing activities in relation to their financial services and information services.

## **Other transfers of your personal data**

For one or more of the purposes specified above, your personal data may be:

1. transferred to other members of the Group and made available to appropriate persons in the Group, in Hong Kong or elsewhere and in this regard you consent to the transfer of your data outside of Hong Kong;
2. supplied to any agent, contractor or third party who provides administrative, telecommunications, computer, payment, debt collection, data processing or other services to HKEX and/or any of other member of the Group in Hong Kong or elsewhere; and
3. other parties as notified to you at the time of collection.

## **How we use cookies**

If you access our information or services through the HKEX website, you should be aware that cookies are used. Cookies are data files stored on your browser. The HKEX website automatically installs and uses cookies on your browser when you access it. Two kinds of cookies are used on the HKEX website:

**Session Cookies:** temporary cookies that only remain in your browser until the time you leave the HKEX website, which are used to obtain and store configuration information and administer the HKEX website, including carrying information from one page to another as you browse the site so as to, for example, avoid you having to re-enter information on each page that you visit. Session cookies are also used to compile anonymous statistics about the use of the HKEX website.

**Persistent Cookies:** cookies that remain in your browser for a longer period of time for the purpose of compiling anonymous statistics about the use of the HKEX website or to track and record user preferences.

The cookies used in connection with the HKEX website do not contain personal data. You may refuse to accept cookies on your browser by modifying the settings in your browser or internet security software. However, if you do so you may not be able to utilise or activate certain functions available on the HKEX website.

## **Compliance with laws and regulations**

HKEX and other members of the Group may be required to retain, process and/or disclose your personal data in order to comply with applicable laws and regulations or in order to comply with a court order, subpoena or other legal process (whether in Hong Kong or elsewhere), or to comply with a request by a government authority, law enforcement agency or similar body (whether situated in Hong Kong or elsewhere) or to perform or discharge the Regulatory Functions. HKEX and other members of the Group may need to disclose your personal data in order to enforce any agreement with you, protect our rights, property or safety, or the rights, property or safety of our employees, or to perform or discharge the Regulatory Functions.

## **Corporate reorganisation**

As we continue to develop our business, we may reorganise our group structure, undergo a change of control or business combination. In these circumstances it may be the case that your personal data is transferred to a third party who will continue to operate our business or a similar service under either this Privacy Policy Statement or a different privacy policy statement which will be notified to you. Such a third party may be located, and use of your personal data may be made, outside of Hong Kong in connection with such acquisition or reorganisation.

## **Access and correction of personal data**

Under the PDPO, you have the right to ascertain whether we hold your personal data, to obtain a copy of the data, and to correct any data that is inaccurate. You may also request us to inform you of the type of personal data held by us. All data access requests shall be made using the form prescribed by the Privacy Commissioner for Personal Data ("**Privacy Commissioner**") which may be found on the official website of the Office of the Privacy Commissioner or via this link

<https://www.pcpd.org.hk/english/publications/files/Dforme.pdf>

Requests for access and correction of personal data or for information regarding policies and practices and kinds of data held by us should be addressed in writing and sent by post to us (see the "Contact Us" section below).

A reasonable fee may be charged to offset our administrative and actual costs incurred in complying with your data access requests.

## **Termination or cancellation**

Should your account or relationship with us be cancelled or terminated at any time, we shall cease processing your personal data as soon as reasonably practicable following such cancellation or termination, provided that we may keep copies of your data as is reasonably required for archival purposes, for use in relation to any actual or potential dispute, for the purpose of compliance with applicable laws and regulations and for the purpose of enforcing any agreement we have with you, for protecting our rights, property or safety, or the rights, property or safety of our employees, and for performing or discharging our functions, obligations and responsibilities.

## **General**

If there is any inconsistency or conflict between the English and Chinese versions of this Privacy Policy Statement, the English version shall prevail.

## **Contact us**

By Post:

Personal Data Privacy Officer  
Hong Kong Exchanges and Clearing Limited  
50/F., One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

By Email:

[DataPrivacy@HKEX.COM.HK](mailto:DataPrivacy@HKEX.COM.HK)



Hong Kong Exchanges and Clearing Limited  
10/F, One International Finance Centre  
1 Harbour View Street, Central, Hong Kong

[info@hkex.com.hk](mailto:info@hkex.com.hk)  
t: +852 2522 1122 f: +852 2295 3106  
[hkexgroup.com](http://hkexgroup.com) | [hkex.com.hk](http://hkex.com.hk)