

Frequently Asked Questions ~~001-2017 to 004-2017 (Released on 6 January 2017)~~

- Questions ~~relating to the~~on audit terminology used in the Rules with reference to the ~~HKICPA new and~~HKICPA's revised Auditor Reporting Standards effective on 15 December 2016 (Released on 6 January 2017 / Last updated on 1 March 2019)

Status of “Frequently Asked Questions”

The following frequently asked questions (FAQs) are designed to help issuers understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our “answers”, we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Department may be consulted on a confidential basis. Contact the Listing Department at the earliest opportunity with any queries.

Release Date (Last Update Date)	Main Board Rules	GEM Rules	Series No.	FAQ No.	Query	Response											
06/01/2017 <u>(01/03/2019)</u>	4.18 & 4.19, 14.67(6)(a)(i), 14.86, Paragraph 5 of Practice Note 3, Paragraph 35 of Appendix 1A, Paragraph 42(2) of Appendix 1C, Paragraph 35 of Appendix 1E, Paragraphs 45(7) and 46(8) of Appendix 16, Appendix 24	7.22 & 7.23, 18.50(8), 18.51, 18.64, 18.76, 18.78(5), 19.67(6)(a)(i), 19.86, Paragraph 35 of Appendix 1A, Paragraph 42(2) of Appendix 1C, Appendix 17	N/A	001-2017	<p>Given the new and revised Hong Kong Standards on Auditing (“HKSA’s”) on auditor reporting (the “Auditor Reporting Standards”) issued by the HKICPA on 31 August 2015 are effective for audits of financial statements for periods ending on or after 15 December 2016, will the Exchange update the audit terminology used in the Rules with reference to the new and revised Auditor Reporting Standards?</p> <p><u>(FAQ withdrawn on 1 March 2019)</u></p>	<p>Yes. The Exchange is aware that the words “qualified” auditors’ reports and “qualification” used in the current Rules are out of date audit terminology. The table below summarises the terminologies used in the current Rules and HKSA’s:</p> <table border="1"> <thead> <tr> <th rowspan="2">Meanings</th> <th colspan="2">Terminology used</th> </tr> <tr> <th>Current Rules</th> <th>HKSA’s</th> </tr> </thead> <tbody> <tr> <td> Matters that do affect the audit opinion: — qualified opinion — adverse opinion — disclaimer of opinion </td> <td> Qualified/ Qualification </td> <td> Modified opinion </td> </tr> <tr> <td> Matters that do affect the audit opinion: — qualified opinion — adverse opinion — disclaimer of opinion AND/OR Matters that do not affect the audit opinion: — emphasis of matter — material uncertainty related to going concern </td> <td> Modified/ Modification </td> <td> No specific equivalent term </td> </tr> </tbody> </table> <p>The Exchange will update the audit terminology used in the Rules with reference to the new and revised</p>	Meanings	Terminology used		Current Rules	HKSA’s	Matters that do affect the audit opinion: — qualified opinion — adverse opinion — disclaimer of opinion	Qualified/ Qualification	Modified opinion	Matters that do affect the audit opinion: — qualified opinion — adverse opinion — disclaimer of opinion AND/OR Matters that do not affect the audit opinion: — emphasis of matter — material uncertainty related to going concern	Modified/ Modification	No specific equivalent term
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						<p>Auditor Reporting Standards. We intend to consult the market on proposed Rule amendments in this regard in due course.</p> <p>In the meantime, issuers are reminded that their audit committee should have in-depth conversations with their auditors at an early stage (e.g. about key audit matters, going concern issues and other significant events or transactions that occurred during the reporting period). Doing so may help to minimise the risk of last minute surprises and avoid delays in releasing their annual results (see paragraph 51 of the Exchange's Financial Statements Review Report 2015, which is available on the HKEX website at: http://www.hkex.com.hk/eng/rulesreg/listrules/guidref/Documents/frm-15.pdf).</p>
06/01/2017 <u>(01/03/2019)</u>	<u>1.01,</u> Paragraphs 45(7) and 46(8) of Appendix 16, Appendix 24	<u>1.01,</u> 18.50(8), 18.51, 18.64, 18.76, 18.78(5), Appendix 17	N/A	002-2017	The new and revised Auditor Reporting Standards <u>The revised Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA on 31 August 2015 which became effective for audits of financial statements for periods ending on or after 15 December 2016,</u> require the issuer's auditors to report "Key Audit Matters" ("KAM") in their audit report. Will the issuer need to:	<p>(i) Currently, there is no specific requirement under the Rules for an issuer to provide details of KAM in its results announcement.</p> <p>For investors to better understand the financial statements and the audit that was performed, it is considered more appropriate that KAM should be read and considered together with the full audit report and <u>the</u> complete set of financial statements. Therefore, the issuer is recommended to publish its full annual report as soon as practicable after the preliminary results</p>

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					<p>(i) provide details of KAM in the preliminary results announcement; and</p> <p>(ii) select the headline category "Qualified and/or Modified Audit Report <u>by Auditors</u>" when submitting the results announcement for publication?</p>	<p>announcement has been issued.</p> <p>(ii) No. Given that KAM is part of a clean audit report, the issuer should not select the headline category "Qualified and/or Modified Audit Report <u>by Auditors</u>" when submitting the results announcement for publication on the HKEXnews website.</p> <p>The issuer is reminded that paragraphs 45(7) and 46(8) of Appendix 16 to the Main Board Rules and GEM Rules 18.50(8) and 18.78(5) require an, where its auditors are likely to issue a modified report on its financial statements, the issuer to provide details of the modification in the results announcement and select the headline category "Qualified and/or Modified Audit Report <u>by Auditors</u>" in the following situations. The newly defined term "modified report" in Main Board Rule 1.01/ GEM Rule 1.01 refers to:</p> <p>(a) where the audit opinion in the auditors' report is a "modified opinion" (i.e. a qualified opinion, an adverse opinion or a disclaimer of opinion); and/or</p> <p>(b) where the auditors' report contains any of the following without modifying the audit opinion:</p> <ul style="list-style-type: none"> - an emphasis of matter paragraph; and

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						<p>- a material uncertainty related to going concern.</p> <p>There is no policy change to the Rules in this regard.</p>
06/01/2017 <u>(01/03/2019)</u>	<u>1.01</u> , Paragraphs 45(7) and 46(8) of Appendix 16, Appendix 24	<u>1.01</u> , 18.50(8), 18.51 , 18.64, 18.76, 18.78(5), Appendix 17	N/A	003-2017	When the auditors express an unmodified opinion but include an “Emphasis of Matter” paragraph or a separate section under the heading “Material Uncertainty Related to Going Concern”, will the issuer need to provide details in the preliminary results announcement and select the headline category “ Qualified and/or Modified Audit Report ” <u>by Auditors</u> when submitting the results announcement for publication?	<p>Yes. For the purpose of the Rules, the headline category “Qualified and/or Modified Audit Report” will continue to cover the following situations:</p> <p>(a) where the audit opinion in the auditors’ report is a “modified opinion” (i.e. a qualified opinion, an adverse opinion or a disclaimer of opinion); and/or</p> <p>(b) where the auditors’ report contains any of the following without modifying the audit opinion:</p> <ul style="list-style-type: none"> — an emphasis of matter paragraph; and — a material uncertainty related to going concern. <p><u>Yes. See the definition of “modified report” in Main Board Rule 1.01/ GEM Rule 1.01 (FAQ 002-2017).</u></p> <p>Where the auditors’ report is expected to include an “Emphasis of Matter” paragraph or a separate section under the heading “Material Uncertainty Related to Going Concern”, the issuer should provide details in its results announcement. In such case, the issuer should also select the headline category “Qualified and/or Modified Audit Report <u>by</u></p>

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						<u>Auditors</u> ” when submitting its results announcement for publication on the HKEXnews website.
06/01/2017 <u>(01/03/2019)</u>	Paragraphs 46(5), 46(6) & 46(7) of Appendix 16, Appendix 24	18.61, 18.78(5), 18.78(6) & 18.78(7), Appendix 17	N/A	004-2017	When the interim results have been <u>reviewed</u> by the issuer’s auditors and where the review report is modified, will the issuer need to provide details in the review report in the interim results announcement and select the headline category “ <u>Qualified and/or Modified Audit Report by Auditors</u> ” when submitting the announcement for publication?	<p>Paragraphs 46(6) & (7) of Appendix 16 to the Main Board Rules and GEM Rules 18.78(6) & (7) require a statement as to whether or not the interim results have been reviewed and where there is any disagreement by the auditors or the audit committee with the accounting treatment adopted by the issuer, full details should be disclosed.</p> <p>Accordingly, the issuer should disclose in its interim results announcement the fact that the interim results have been reviewed by its auditors. There is no specific requirement under the Rules for an issuer to provide details of the modifications in the review report issued by its auditors in an interim results announcement, except where the modification relates to the auditors’ disagreement with the accounting treatment adopted by the issuer.</p> <p>However, paragraph 46(5) of Appendix 16 to the Main Board Rules and GEM Rule 18.78(5) require an issuer to include any supplementary information which in the opinion of the directors of the issuer is necessary for a reasonable appreciation of the results for the relevant period. Therefore, the issuer is expected to provide details of the modifications in its interim results announcement and interim report. In such case, the issuer should also select the</p>

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						<p>headline category “Qualified and/or Modified Audit Report <u>by Auditors</u>” when submitting the results announcement for publication on the HKEXnews website.</p> <p><u>(Note: See FAQ 053-2019 for clarification on the use of the term “modification”.)</u></p>
<u>01/03/2019</u>	<u>1.01, 4.18, 14.68(2)(a)(i), Paragraph 35 of Appendix 1A, Paragraph 42(2) of Appendix 1C, Paragraph 35 of Appendix 1E, Paragraphs 45(7) and 46(8) of Appendix 16</u>	<u>1.01, 7.22, 18.50(8), 18.64, 18.76, 19.68(2)(a)(i), Paragraph 35 of Appendix 1A, Paragraph 42(2) of Appendix 1C</u>	<u>N/A</u>	<u>053-2019</u>	<p><u>(i) Given the Exchange has now updated the audit terminology in the Rules with reference to the revised HKSA’s on auditor reporting, the terms “modified opinion” and “modified report” are defined in Main Board Rule 1.01/ GEM Rule 1.01. However, there is no definition of “modification” in the Rules.</u></p> <p><u>Please clarify the use of the term “modification”.</u></p> <p><u>(ii) Where the financial information has been reviewed and a review conclusion has been expressed by the auditors/ reporting accountants (e.g. FAQ 004-2017), what is meant by “modification” referred to in the Rules.</u></p>	<p><u>(i) “Modification” is a generic term which should be read in the context of the Rule.</u></p> <p><u>Audit engagements</u></p> <p><u>The terms “modified opinion” and “modified report” defined in Main Board Rule 1.01/ GEM Rule 1.01 relate to an accountants’ report or auditors’ report containing an audit opinion.</u></p> <p><u>Where a Rule explicitly refers to a “modified opinion”, then the term “modification” should be read in the context of that Rule and should refer to a “modified opinion”.</u></p> <p><u>The same applies when a Rule explicitly refers to a “modified report”, then the term “modification” should be read in the context of that Rule and should refer to a “modified report”.</u></p> <p><u>For reference, the table below summarises the</u></p>

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					<p><u>interpretation and guidance issued by the Exchange?</u></p> <p><u>Please clarify the use of the term “modification” in that context.</u></p>	<p><u>terminologies used in the current Rules and the HKSA:</u></p> <table border="1" data-bbox="1473 451 2163 1198"> <thead> <tr> <th data-bbox="1473 499 1800 579" rowspan="2"><u>Meanings</u></th> <th colspan="2" data-bbox="1800 451 2163 499"><u>Terminology used</u></th> </tr> <tr> <th data-bbox="1800 499 1980 579"><u>Current Rules</u></th> <th data-bbox="1980 499 2163 579"><u>HKSA</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="1473 579 1800 751"> <u>Matters that affect the audit opinion:</u> - <u>qualified opinion</u> - <u>adverse opinion</u> - <u>disclaimer of opinion</u> </td> <td data-bbox="1800 579 1980 751"><u>Modified opinion</u></td> <td data-bbox="1980 579 2163 751"><u>Modified opinion</u></td> </tr> <tr> <td data-bbox="1473 751 1800 1198"> <u>Matters that affect the audit opinion:</u> - <u>qualified opinion</u> - <u>adverse opinion</u> - <u>disclaimer of opinion</u> <u>AND/OR</u> <u>Matters that do not affect the audit opinion:</u> - <u>emphasis of matter</u> - <u>material uncertainty related to going concern</u> </td> <td data-bbox="1800 751 1980 1198"><u>Modified report</u></td> <td data-bbox="1980 751 2163 1198"><u>No specific equivalent term</u></td> </tr> </tbody> </table> <p><u>(ii) Where the financial information has been reviewed and a review conclusion has been expressed by the auditors/ reporting accountants, then the term “modification” in the Rules and FAQs should refer to:</u></p>	<u>Meanings</u>	<u>Terminology used</u>		<u>Current Rules</u>	<u>HKSA</u>	<u>Matters that affect the audit opinion:</u> - <u>qualified opinion</u> - <u>adverse opinion</u> - <u>disclaimer of opinion</u>	<u>Modified opinion</u>	<u>Modified opinion</u>	<u>Matters that affect the audit opinion:</u> - <u>qualified opinion</u> - <u>adverse opinion</u> - <u>disclaimer of opinion</u> <u>AND/OR</u> <u>Matters that do not affect the audit opinion:</u> - <u>emphasis of matter</u> - <u>material uncertainty related to going concern</u>	<u>Modified report</u>	<u>No specific equivalent term</u>
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						<p><u>Review engagements</u></p> <p><u>(a) a modified review conclusion (i.e. qualified conclusion, an adverse conclusion or a disclaimer of conclusion); and/or</u></p> <p><u>(b) an emphasis of matter paragraph or a paragraph to highlight a material uncertainty related to going concern without modifying the review conclusion.</u></p> <p><u>(Note: A review is substantially less in scope than an audit conducted in accordance with relevant HKICPA standards (or equivalent standards issued by IAASB and China Ministry of Finance). Currently, the applicable HKICPA standards for a review engagement are Hong Kong Standards on Review Engagements 2400 (Revised) and 2410.)</u></p>

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