



(This message was originally distributed by email)

24 February 2020

Dear Members,

Thank you for your reply to our survey on possible audit delay due to the coronavirus outbreak in the mainland. As the survey closes, we received 43 replies. I would like to highlight to you two key findings:

- 1) 65% of respondents whose financial year end is in December and whose audit work is mostly conducted in the mainland believe there would be delay in their audit this year. The two most attributable factors are delay in the mainland staff getting back to work and difficulty of Hong Kong audit personnel in traveling to the mainland.
- 2) 47% of these companies expect they would still be able to announce results by the March 2020 deadline. In other words, as high as 53% expect they cannot.

In view of this, we had arranged a telephone conference on last Wednesday, 19 February with the Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong (the Exchange). The participants included Brian Ho, Executive Director, Corporate Finance of SFC, and Bonnie Chan, Head of Listing of the Stock Exchange, to express our concerns and seek guidance and clarification of how the regulators would handle the situation.

Below are the key messages from the call:

1. SFC and the Stock Exchange do not consider granting a blanket extension of reporting deadline for one month. In their view, companies should have had a good grasp of financials of FY 2019 before the disruption caused by the virus outbreak. While on-site audit work is hindered by the travel bans, they believe audit can still be carried out through remote access. Although they understand the challenges for auditors in obtaining bank confirmation, conducting physical inspection, for example, hence the accounts might not be “agreed upon”, they still advise companies to issue preliminary results by March 31. Even if there are differences with the eventual audited accounts, the regulators would not consider company directors as having committed wrongdoings if the directors had proceeded in good faith. In this case, trading of the company shares would normally not be suspended. It must be noted that publishing preliminary accounts without auditors’ agreement is itself a deviation from the Listing Rules 13.49(2), companies still need to inform the Exchange.

2. If the preliminary results in full are not available, sufficient information should still be published with explanation in order to avoid an absence of financial information for investors. However, no guidelines or bright-line test as to what constitutes “sufficient” are forthcoming for fear that companies would only provide the minimum, companies are advised to discuss with the Exchange to establish if the information on hand is sufficient. As we understand, the intention of the regulators is to avoid suspension as much as possible.
3. Another matter worth noticing is the publishing of annual reports. The Exchange acknowledges if a company is late in obtaining agreement to its preliminary results, the schedule of publishing the audited accounts and annual report would be affected as a consequence. The Exchange will monitor the situation.
4. All in all, the regulators said they would not grant extension to the reporting deadline. They expect companies to put out either preliminary results (even without auditor’s agreement) or release sufficient information. They said they are dedicated to help companies that face difficulties and, in our impression, are not prone to suspend trading of shares. Companies are advised strongly to discuss their individual case with the Exchange.

Important:

The above is a summary of the discussion of our call with the SFC and the Stock Exchange and reflects only the understanding of the Chamber of the Hong Kong Listed Companies of the stance of the two regulators but in no circumstances represent the regulators’ official position or how they would handle each company’s case. Members should refer to the joint statement published by the Securities and Futures Commission and the Stock Exchange of Hong Kong on 4 February on this matter that can be accessed via this link <https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=20PR11> and discuss with the Exchange your own situation.

Yours sincerely,

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