



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Report on the Securities and Futures Commission's Review of the Exchange's Performance in Its Regulation of Listing Matters

March 2026

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Section 1: Overview

Introduction

1. This report summarises the key findings and recommendations of the Securities and Futures Commission's (**SFC**) 2025 review of the performance of The Stock Exchange of Hong Kong Limited (**Exchange**) in its regulation of listing matters during 2024.
2. The Exchange is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (**HKEX**).

Objectives of our review

3. The SFC has a statutory duty under section 5(1)(b) of the Securities and Futures Ordinance (**SFO**) to supervise, monitor and regulate the activities carried on by the Exchange. Under the Listing MOU¹, it was agreed that the SFC would conduct periodic audits or reviews of the Exchange's performance in its regulation of listing-related matters as a means to discharge the SFC's statutory function to supervise and monitor the Exchange.
4. The First Addendum to the Listing MOU dated 9 March 2018 provides that in conducting these periodic audits or reviews, the SFC will focus on:
 - (a) whether the Exchange, in carrying out its listing regulatory function, has discharged and is discharging its duties under the SFO; this includes assessing its work in developing, administering and implementing its Listing Rules² as well as the monitoring and enforcement of compliance with those rules;
 - (b) the adequacy of the Exchange's systems, processes, procedures and resources for performing its listing function; and
 - (c) the effective management of conflicts of interest within the Exchange as a regulator and as part of a for-profit organisation, including the supervisory functions performed by the Listing Committee.

Scope of review

5. Our 2025 review covered the Exchange's regulation of listing matters in 2024 (**review period**) and focused on the following areas:
 - (a) the Exchange's vetting of internal control reviews conducted by listed issuers; and
 - (b) the Exchange's vetting of listed issuers' handling of late auditor resignations.

How we conducted the assessment

6. In conducting our assessment, we considered:
 - (a) HKEX's 2024 annual report, the Listing Committee Report for 2024, and the 2024 Report on the Exchange's Review of Issuers' Annual Reports;

¹ The Memorandum of Understanding between the Exchange and the SFC dated 28 January 2003 (**Listing MOU**).

² Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

- (b) the Exchange's published disciplinary procedures, listing decisions, guidance letters and other related documents on the HKEX website;
- (c) relevant internal documents, written policies, procedures and processes of the Listing Division's operational departments;
- (d) information received from the Listing Division in the ordinary course of our supervisory work, including its monthly reports and case data;
- (e) case files for sample cases;
- (f) minutes of meetings of the Listing Committee and the Listing Operation Governance Committee (**LOG Committee**), excerpts of minutes of meetings of the respective boards of directors of the Exchange and HKEX, and other relevant internal documents relating to the activities of the Listing Committee and the Listing Division;
- (g) relevant internal documents submitted to the Listing Committee and the LOG Committee by the Listing Division in relation to the activities of the Listing Division;
- (h) our discussions with the former Chairman³ and Deputy Chairmen of the Listing Committee; and
- (i) our discussions with the Head of Listing, the heads of the operational departments and other senior personnel of the Listing Division, and written responses to our enquiries.

Our observations and recommendations

7. Below is a summary of our findings and recommendations following the review. In arriving at our recommendations, we have taken into account initiatives and proposals undertaken by the Exchange after the review period. Our findings and recommendations are set out in more detail in Section 2 of this report. We also noted that the Exchange has taken steps to address the recommendations set out in our 2024 and 2022 review reports.
8. The Head of Listing and the Chairman of the Listing Committee have reviewed this report. We wish to thank members of the Listing Committee and the staff of the Listing Division for their assistance in the review process.
9. The SFC's observations and recommendations are summarised as follows:

The Exchange's vetting of internal control reviews conducted by listed issuers

The Exchange may require an issuer to conduct an independent internal control review where material deficiencies are identified in the issuer's internal control system. During the review period, the Exchange imposed this review requirement mostly in long-suspension cases, as well as a small number of disciplinary cases. We assessed the Exchange's processes, procedures and practice for vetting the internal control reviews conducted by listed issuers, and a sample of cases.

³ The incumbent Chairman of the Listing Committee took up the role in July 2025 after the former Chairman stepped down.

- (a) To promote the effectiveness in identifying cases where an independent internal control review should be required, the Exchange is recommended to enhance its internal guidance by setting out the criteria as to when the resumption condition of an independent internal control review should be imposed (paragraph 55).
- (b) In long-suspension or disciplinary cases where an independent internal control review is required, the Exchange should be satisfied that the scope of the independent internal control review conducted or proposed by issuers is adequate, and should place more reliance on the issuers' independent internal control consultants and external auditors to verify the general adequacy of the issuers' internal controls. The Exchange should consider requiring the independent internal control consultant to issue an opinion or confirmation to the Exchange that the consultant has completed an appropriate review of the issuer's internal control systems and procedures and, after consulting the issuer's external auditor, is of the view that (i) the identified material deficiencies that led to the trading suspension or disciplinary action have been rectified and all necessary remedial measures have been implemented (including both adopting written policies and procedures and the actual implementation of and adherence to the policies and procedures in the issuer's operations and activities), and (ii) the internal controls of the issuer are adequate and effective to serve their purposes and enable the issuer to comply with the Listing Rules and other legal and regulatory requirements on financial reporting, disclosure of notifiable and connected transactions and inside information (paragraph 56).
- (c) In the event that there is insufficient opportunity for the consultant to review the implementation of certain policies and procedures but the Exchange, after considering all relevant factors, is minded to allow trading to resume, the Exchange should consider requiring the issuer to arrange a follow-up review on those areas concerned within a reasonable period or take other steps to ensure there is active ongoing monitoring of the relevant compliance as well as regular reporting to the Exchange for a specified period after trading resumption (paragraph 57).
- (d) The Exchange is also recommended to take steps to assess the independence, credentials, qualification and experience of the internal control consultant retained by the issuer and check that it is suitable to discharge the duties to the expected standards (paragraph 58).
- (e) The Exchange is further recommended to consider requiring the issuer's audit committee or independent committee⁴ to lead the independent internal control review and actively work with the independent consultant and the issuer's auditor to ensure that all material deficiencies are rectified and the issuer has adequate and effective internal controls. The Exchange is also recommended to provide training and other capacity-building resources to listed issuers' audit committees and other board members (paragraphs 59 and 60).
- (f) The Exchange is recommended to standardise its approach in vetting issuers' announcements, and ensure fair and accurate disclosure of the internal control review findings and recommendations, the progress of implementing the remedial measures and the view of the internal control consultant and the audit committee (paragraph 61).

⁴ See footnote 20.

The Exchange's vetting of listed issuers' handling of late auditor resignations

Late resignations of auditors pose significant risks to listed issuers' ability to publish quality financial information in a timely manner. Issuers' audit committees are responsible for monitoring the audit process to mitigate the likelihood of a late change in auditors and (when a late resignation does occur) for ensuring that full and accurate disclosure is made and audit quality is not compromised. We reviewed the Exchange's processes, procedures and practice for vetting issuers' handling of late auditor resignations, including its review of the audit committees' discharge of their duties, and a sample of cases.

- (g) To reduce the frequency of late changes in auditors, the Exchange is recommended to amend its guidance to the market in light of the guiding principle issued by the Accounting and Financial Reporting Council (**AFRC**) that listed issuers should agree with their auditors on the audit fees when the auditors are appointed at the annual general meeting and, in consultation with the AFRC, develop further guidance on the circumstances or mechanism of reasonable adjustments to the fees and the proper disclosure to be made, and to require issuers to obtain shareholders' approval when they request their auditors to resign (paragraph 113).
- (h) Where a late auditor resignation is unavoidable, the Exchange is recommended to enhance its scrutiny over the issuer's submissions and announcements of the reasons for the resignation, require supporting evidence and more detailed disclosures and consider taking regulatory action for deficient disclosures in appropriate cases. In cases where there are red flags that false representation might have been made by the issuer and/or resigning auditor, the Exchange should consider taking appropriate regulatory actions or making referrals to the relevant authorities (paragraphs 115 to 117).
- (i) Where the auditor resigns due to unresolved audit issues, the Exchange is recommended to make careful enquiries with respect to the circumstances surrounding the resignation and require the issuer to make detailed disclosure on, amongst others, details of the outstanding audit issues, the reason why changing auditor would resolve the issues, and the role and actions of the audit committee, in line with the Exchange's published guidance (paragraph 118).
- (j) The Exchange is further recommended to enhance its scrutiny of how the audit committee has evaluated the incoming auditor's quality and audit plan in discharging the committee's duties to oversee the effectiveness of the audit process in line with the Exchange's published guidance. The Exchange is recommended to request the issuer to provide detailed information on how the audit committee conducted the assessment and the basis of its conclusion. The Exchange is further recommended to vet the results announcements of issuers with late auditor resignations with heightened scrutiny, and consider making referrals to the appropriate authorities in cases where there is a reasonable concern that the audit quality might have been compromised (paragraphs 119 to 121).

Follow-up on 2024 review

In 2024, we reviewed the Exchange's handling of issuers' non-compliance with the Listing Rule requirements on disclosure of material information, and made recommendations for the Exchange to improve issuers' compliance and standards with respect to the notifiable and connected transaction rules.

- (k) The Listing Regulation and Enforcement department (**LRE**) has updated its operational manual to introduce additional procedures that LRE staff should follow when dealing with suspected Listing Rules breaches involving major or larger transactions and/or connected transactions requiring independent shareholders' approval. Under the new procedures, LRE will make enquiries and require the issuer to disclose, amongst others, the breach that occurred, the remedial plan including any internal control review conducted, the implementation of the remedial actions and the confirmation by the issuer's board on the adequacy and effectiveness of the issuer's internal control. We noted that the new procedures have been applied by LRE in a sample of cases reviewed by us, and the requirements have been communicated to the market through the Exchange's public newsletter (paragraphs 126 to 131).
- (l) The Exchange has commenced a review of its approach in taking disciplinary actions against breaches of the notifiable and connected transaction rules. It will take time to evaluate the effectiveness of the new procedures and approach in improving issuers' compliance in this area (paragraph 132).

We also reviewed the Exchange's processes and procedures for handling issuers' unusual stock price and volume movements, and recommended the Exchange to enhance its guidance and training to staff members on case monitoring, assessment and follow-up actions and to review the issuers' contact persons to ensure their timely response to regulatory enquiries.

- (m) The Exchange provided training to LRE staff on the monitoring of share price and volume movement and media monitoring, and enhanced the price and volume monitoring checklist and system. The Exchange also published guidance to the market on issuers' designation of authorised representatives. Based on information provided by the Exchange, there were still cases where the authorised representatives failed to provide timely and meaningful response to the Exchange's time-sensitive enquiries. We recommend that the Exchange monitor issuers' compliance in this area and take follow-up actions in appropriate cases (paragraphs 136 to 138).

Section 2: Major Findings and Recommendations

The Exchange's vetting of internal control reviews conducted by listed issuers

Introduction

10. Internal controls assist an issuer in managing risks significant to its business and provide assurance that an issuer will be able to achieve its business objectives. As an essential component of investor protection and market quality, every issuer is expected to have a comprehensive and effective framework of risk management and internal control covering the full range of the issuer's and its subsidiaries' operations.
11. The elements commonly found in an effective internal control system include control environment, risk assessment, control activities, information and communication, and monitoring. An effective internal control system encompasses the policies, processes, tasks, behaviours and other aspects of a company that, taken together:
 - facilitate effective and efficient operation by enabling the issuer to respond appropriately to significant business, operational, financial, compliance and other risks, including the safeguarding of assets from inappropriate use, loss and fraud;
 - help ensure the quality of internal and external reporting, including through the maintenance of proper records and processes that generate timely, relevant and reliable information; and
 - help ensure regulatory compliance and adherence to internal policies with respect to the conduct of business⁵.

Requirement for issuers to conduct internal control reviews

12. The Exchange's Corporate Governance Code (**CG Code**) provides that the board is responsible for ensuring, on an ongoing basis, that the issuer establishes and maintains appropriate and effective risk management and internal control systems for the purpose of dealing with identified risks, safeguarding the issuer's assets, preventing and detecting fraud, misconduct and loss, ensuring the accuracy of the issuer's financial reports, and achieving compliance with applicable laws and regulations⁶.
13. The Exchange may require an issuer to conduct an internal control review in cases where material deficiencies are identified in the issuer's internal control system. During the review period, these reviews were required under two circumstances:
 - (a) most of the review requirements were imposed on long-suspended issuers⁷ as a condition for trading resumption, and
 - (b) review directions were issued in a small number of disciplinary cases⁸.

⁵ See [Internal Control and Risk Management - A Basic Framework](#). The guide was issued by the Hong Kong Institute of Certified Public Accountants (**HKICPA**) at the invitation of the Exchange, to provide guidance to help listed issuers understand and implement the requirements under the Corporate Governance Code relating to internal controls and devise their internal control procedures.

⁶ Corporate Governance Code, Part 2, D.2.

⁷ Issuers whose securities have been suspended from trading for more than three months.

⁸ Aside from Listing Rule breaches that result in a long trading suspension or a disciplinary action, other non-compliance

Long-suspended issuers

14. According to the Exchange's guidance letter on long suspension and delisting (**Delisting Guidance Letter**)⁹, promptly after trading is suspended, the issuer is expected to (i) review the matter giving rise to the suspension and identify the relevant issues, (ii) announce a resumption plan with proposed actions to remedy the issues and re-comply with the Listing Rules, and (iii) announce regular updates on its resumption progress.
15. During a suspended issuer's remedial period¹⁰, the Exchange would issue resumption conditions/guidance (**resumption conditions**) to the issuer, setting out the requirements that the issuer must fulfil before trading can resume. These conditions are primarily based on the matter giving rise to the suspension and the issues identified by the issuer. If the issues giving rise to the trading suspension indicate material weaknesses in the issuer's internal controls system, the Exchange would impose a resumption condition for the issuer to engage independent experts to review the internal control system and to identify material weaknesses with remedial actions.
16. If the Exchange is satisfied that the issuer has met all the resumption conditions, it will approve the resumption of trading in the issuer's securities. If the issuer cannot satisfy all the resumption conditions within the prescribed remedial period pursuant to the Listing Rules, the Exchange may proceed to cancel the listing of its securities.

Disciplinary cases

17. The Listing Committee may, in connection with a disciplinary proceeding, order an issuer to take rectification or other remedial actions to rectify a rule breach, improve corporate governance and prevent future breaches¹¹. One of the common directions issued pursuant to this power is to require, where material deficiencies are identified in the issuer's internal control or risk management systems, the issuer to appoint an independent external consultant satisfactory to the Exchange to conduct an internal control review and implement the recommendations to ensure compliance with the relevant Listing Rule requirements that have been breached in the case.

Cases reviewed

18. We assessed the Exchange's processes, procedures and practice for vetting the internal control reviews conducted by listed issuers.
19. In 2024, 40 long-suspended issuers were able to satisfy the resumption conditions and resume trading, whereas 32 failed to meet the resumption conditions and were delisted. Among these 72 long-suspended companies, 18 were imposed with a resumption condition to conduct an independent internal control review. 54 issuers did

with the Listing Rules, such as a failure to comply with the notifiable or connected transaction rules, may also expose significant deficiencies in an issuer's internal control system. As noted in our [2024 report](#) on the review of the Exchange's performance in its regulation of listing matters, in the past the Exchange did not generally follow up with issuers to remediate a breach of the notifiable or connected transaction rules. As a result, other than the long-suspension cases and disciplinary cases, in 2024 the Exchange did not make any request for issuers to conduct internal control reviews after a rule breach. In response to our 2024 recommendations, the Exchange has enhanced its follow-up actions on issuers' breach of the notifiable or connected transaction rules and, where appropriate, required the issuers to carry out an internal control review to prevent a recurrence of the non-compliance. See paragraphs 126 to 132.

⁹ [Guidance on long suspension and delisting](#), HKEX-GL95-18 (updated in December 2025).

¹⁰ 18 months for Main Board issuers or 12 months for GEM issuers. See Main Board rule 6.01A(1). The equivalent GEM rule is rule 9.14A. For simplicity, references are made to a particular rule or chapter of the Main Board Listing Rules only. The GEM Listing Rules contain broadly equivalent rules.

¹¹ Rule 2A.10(11).

not receive this resumption condition, but six of them voluntarily undertook an independent internal control review to address internal control deficiencies revealed during the audit or by an investigation.

20. We reviewed the case files of 19 long-suspended issuers, including nine which received a resumption condition to conduct an independent internal control review, six which did not receive such a resumption condition but voluntarily undertook an independent internal control review, and four which did not conduct such a review notwithstanding apparent internal control deficiencies¹². Among the 19 issuers, 18 resumed trading and one was delisted.
21. In addition, during 2024, the Exchange directed the issuers to conduct an independent internal control review in three disciplinary cases. We reviewed the case files of two cases.
22. Our findings are set out in paragraphs 23 to 52 and our observations and recommendations are set out in paragraphs 53 to 61.

Criteria for requiring an independent internal control review as a resumption condition

23. The most common reason for suspension of trading in an issuer's securities is that the issuer fails to publish periodic financial information in accordance with the Listing Rules or receives a disclaimer of opinion or an adverse opinion on its financial statements¹³. When this occurs as a result of apparent accounting or corporate irregularities, the Exchange would normally impose a resumption condition on the issuer to conduct an *independent investigation* into the irregularities.
24. In addition, the Delisting Guidance Letter provides that if the issues giving rise to the trading suspension raise concerns about the adequacy of the issuer's internal controls system, the issuer is also expected to conduct an *independent internal control review*, rectify all material weaknesses and demonstrate that the issuer has in place adequate internal controls and procedures to comply with the Listing Rules before trading can resume¹⁴.
25. The Exchange has not issued any public or internal guidance on the types and nature of issues which would raise concerns about the issuer's internal controls so as to warrant the imposition of a resumption condition to conduct an independent review.
26. As noted above, among the 72 long-suspended issuers that either resumed trading or were delisted in 2024, only 18 received a resumption condition to conduct an independent internal control review¹⁵. These cases typically indicated potential fraud or accounting irregularities which resulted in a failure to publish periodic financial information on time or the receipt of a disclaimer of audit opinion.
27. Among the 19 cases reviewed by us, we noted that in eight cases, the Exchange did not impose a resumption condition on the issuers to conduct an independent internal control review although the audit or the independent investigation revealed potential

¹² See paragraphs 27 and 28.

¹³ Rules 13.50 and 13.50A.

¹⁴ Delisting Guidance Letter, paragraphs 38(f) and 40(c). While an independent investigation focuses on investigating the events leading to the occurrence of the irregularities and the persons involved, an internal control review, on the other hand, focuses on the control environment, processes and procedures that should prevent the non-compliance incidents and generally ensure the issuer's compliance with the Listing Rules.

¹⁵ See paragraph 19.

material internal control deficiencies. These deficiencies included, among others, (a) a failure to conduct feasibility study for the issuer's business projects and a lack of record regarding the progress and termination of these projects, (b) a lack of effective supervision of the preparation of the issuer's financial statements, (c) deficiencies in the board approval process for transactions conducted by the issuer, (d) a lack of proper control governing the issuer's joint operation and the use of the company seal, (e) a lack of internal control policy covering a subsidiary acquired by the issuer (and the issuer subsequently lost control over the subsidiary), and (f) insufficient or incapable human resources leading to an ineffective financial reporting system.

28. When we enquired as to why no resumption condition of an independent internal control review was imposed in these eight cases despite the apparent material deficiencies, the Exchange explained that it did not consider it necessary to impose this resumption condition in these cases for the following reasons:
- (a) in some cases, the Exchange became aware of the material internal control deficiencies only when they were identified in an investigation report submitted to the Exchange, at which point the issuer claimed that it had already remediated the internal control deficiencies or had voluntarily undertaken an internal control review¹⁶. (Our review found that as these voluntary reviews were not required by the Exchange, the Exchange's vetting and follow-up actions in a small number of such cases were less rigorous as compared to the cases where the Exchange imposed a resumption condition of internal control review¹⁷), and
 - (b) in the cases of insufficient human resources for financial reporting, the Exchange considered these deficiencies to be isolated incidents which did not require an internal control review.
29. The Exchange informed us that, since 2024, it has revised its approach with respect to imposing resumption conditions as it recognises that in cases of accounting or corporate irregularities where an independent investigation is needed to examine the issues giving rise to a trading suspension, these cases would likely also involve material internal control deficiencies. Therefore, in 2024, the Exchange changed its practice for these trading suspensions and began to impose resumption conditions on the issuer to undertake both an independent investigation and an internal control review at the same time¹⁸. However, this practice has yet to be incorporated into LRE's written procedures. Most of the cases reviewed by us involved trading suspension which took place before the change in practice in 2024 and did not reflect the revised practice¹⁹.

Scope of internal control review and adequacy of remedial measures

30. The Delisting Guidance Letter and LRE's internal procedures set out the steps that the Exchange will take to vet the independent internal control reviews conducted by issuers:

¹⁶ In four of these eight cases, although the Exchange did not impose a resumption condition, the issuers voluntarily conducted an internal control review.

¹⁷ In one case, the Exchange did not request the issuer to submit the internal control review report for vetting and in another case, the Exchange did not follow up for a revised report to address its comments. In these cases, the Exchange did not request the internal control consultants to report on the full implementation of the remedial measures before allowing trading to resume.

¹⁸ We noted that in cases where an issuer's securities trading was suspended in 2024, when the Exchange imposed a resumption condition of independent investigation, it also imposed a resumption condition of internal control review.

¹⁹ The cases reviewed by us involved issuers that either resumed trading or were delisted in 2024, with most of their trading suspensions taking place in 2023 or before.

- (a) the Exchange will review the issuer's resumption plan and (if needed) raise any concerns about the inadequacy of the plan;
 - (b) where a report of internal control review is available, the issuer must announce the findings together with the view of the board (or an independent committee of the board²⁰) on the report and any plan for further actions; and
 - (c) the Exchange will review the announcement and request the issuer to provide it with a copy of the internal control review report. The Exchange may provide comments to the issuer on any concerns or issues that may arise from the report (eg, any outstanding or further issues that require further investigation, or adequacy of the remedial action).
31. In light of the purpose of the independent internal control review as stated in the Delisting Guidance Letter²¹, the scope of the review should be sufficient to rectify the material control deficiencies leading to the trading suspension and ensure the issuer's compliance with the Listing Rules.
32. In the nine cases reviewed where the issuer conducted an independent internal control review pursuant to a resumption condition imposed by the Exchange, the Exchange vetted the review reports to assess the adequacy of the review scope and the remedial measures.
33. In some cases, the Exchange requested the issuers to expand the proposed review scope or enhance the proposed remedial measures to prevent a recurrence of similar incidents. In addition, in some cases where the draft internal control review report submitted to the Exchange contained generic recommendations, the Exchange required the report to be revised to specify whether and how each of the material irregularities that had led to the trading suspension was remediated.
34. In a small number of cases, the internal control review reports did not clearly address all the material deficiencies which, as revealed by the audit or a separate independent investigation, had led to the trading suspension, but the Exchange eventually accepted the scope of the review reports submitted by the issuers²².
35. As to whether the internal control review needs to cover areas beyond those directly relating to the incidents triggering the trading suspension in order to ensure the adequacy of the controls to meet the issuer's obligations under the Listing Rules, we noted differences in the Exchange's assessment in the cases reviewed. In one case, the Exchange's comment letter to the issuer included general guidance that the resumption guidance required the issuer to conduct an independent internal control review of the group and demonstrate that the issuer had in place adequate internal controls and procedures to meet the obligations under the Listing Rules, and that the internal control review should enable the reviewer and the issuer to identify, review and rectify all material deficiencies of the group's internal control systems (including

²⁰ If any director is, or is suspected to be, involved in the irregularities, or where an independent investigation is required, the issuer should set up an independent committee to review the issues and conduct the investigation. This committee should exclude the directors whose independence may be reasonably questioned including those who might have been involved in or aware of the irregularities at the material time. See Delisting Guidance Letter, paragraph 40(a) and [Guidance on investigations conducted by long suspended issuers](#), HKEX-GL120-24 (November 2024), paragraph 19.

²¹ See paragraph 24.

²² For example, in one of these cases, the audit and the independent investigation revealed, amongst others, deficiencies in the procedures relating to the determination of pricing with the supplier and the customer, the approval of sales agreement and the making of prepayments. Despite the Exchange's enquiries, the internal control review report did not address whether and how the internal control consultant had reviewed these areas and its assessment thereof.

but not limited to those arising from or relating to the relevant transactions giving rise to the trading suspension), and to ensure compliance with the Listing Rules and safeguard the interests of the issuer (emphasis added).

36. The scope of the review varied in the other cases reviewed. In one case, the independent review was limited to three discrete internal control processes directly related to the specific matters causing the trading suspension²³. Although the Exchange initially raised enquiries as to the adequacy of the review, it eventually accepted the more limited scope proposed by the issuer (which did not extend to the adequacy of the issuer's internal controls to ensure Listing Rule compliance) as it considered that the review already covered the material deficiencies that triggered the trading suspension²⁴.
37. The Exchange informed us that in practice LRE's vetting focuses on whether the scope of the internal control review is sufficient to enable the issuer to rectify the material deficiencies leading to the trading suspension, and LRE does not generally require the review to extend beyond that scope unless other material problems arise during the suspension period. In addition, LRE adopts a risk-based approach in its vetting of resumption proposals, relying on team members' experience and established practices, as well as the expertise of the independent internal control consultants and the issuer's independent committee to assess the adequacy of the review scope and remedial measures²⁵.
38. In light of the seriousness and fundamental nature of the deficiencies that originally led to the long trading suspension in these cases, it would be prudent for the Exchange to take additional steps to verify that the issuer's internal systems, processes and procedures are adequate to ensure compliance with the Listing Rules and to safeguard the issuer's assets and interests (see paragraph 56 below). This point is illustrated in one of the cases reviewed:
- The issuer had a trading suspension in 2021 as it failed to publish its annual results due to certain questionable connected transactions. An independent internal control review was conducted pursuant to a resumption condition and the scope was limited to the processes relating to the specific matters causing the trading suspension (ie, compliance with the connected transaction rules, fund and investment management and information system).
 - The issuer resumed trading after it had satisfied all the resumption conditions, including the board's confirmation that the issuer had in place adequate and effective controls.
 - Subsequently, trading in the issuer's shares was suspended again due to the discovery of certain unauthorised guarantees provided by a subsidiary, indicating

²³ The trading suspension arose from, amongst others, an unauthorised guarantee provided by a subsidiary of the issuer for certain personal loans taken out by the issuer's controlling shareholder. The internal control review only covered controls relating to financial reporting cycle, treasury management cycle, and management of books for connected transactions.

²⁴ Similarly, in two other cases, an independent investigation was first conducted into the matters leading to the trading suspension and identified certain related internal control deficiencies. The Exchange accepted that the issuer did not need to conduct a separate independent internal control review before trading resumption, on the basis that the issuer had remediated or would remediate the (limited) internal control deficiencies identified by the independent investigation.

²⁵ According to the Exchange, it considers a broader review may be needed in cases where the irregularities causing the trading suspension relate to transactions in the issuer's ordinary course of business, whereas a limited review would be acceptable in cases where the irregularities involve isolated incidents outside of the issuer's ordinary course of business (such as an unauthorised investment).

there were material internal control deficiencies which were unrelated to the issues that gave rise to the previous suspension and thus not covered by the review completed earlier. It was noted that since the unauthorised guarantees took place before the completion of the internal control review undertaken during the first trading suspension, they would not have been prevented even if a broader internal control review had been conducted before the first trading resumption. However, the case suggests that in long-suspension cases due to accounting or corporate irregularities, there may be deficiencies in the issuer's underlying control systems and other material internal control weaknesses that may not be apparent from the events directly triggering the trading suspension.

Issuers' implementation of remedial actions

39. According to the Delisting Guidance Letter, before an issuer is allowed to resume trading, it should rectify all material weaknesses in its internal control system and demonstrate that it has in place adequate internal controls and procedures to comply with the Listing Rules²⁶.
40. Under the typical review procedures, the independent consultant would first conduct an initial review on the issuer's existing internal controls to identify the deficiencies and make recommendations. The consultant would then review the issuer's implementation of the recommendations after an appropriate interval.
41. In the cases reviewed, where the Exchange required the issuer to conduct an internal control review as a resumption condition, it required the independent consultant to report that the remedial measures had been implemented before allowing trading to resume.
42. However, the approach adopted by the consultants for the follow-up implementation review varied. In some cases, the consultants reported the implementation as having been completed as long as the relevant written policies and procedures had been adopted or updated, *without* verifying whether the policies and procedures had been properly adhered to in practice. The Exchange's scrutiny of such review practice varied.
 - In two cases, the Exchange requested the consultant to perform follow-up sample testing or use other means to support that the issuer had in practice implemented the new or updated policies in an effective manner.
 - In two other cases, either no follow-up review was performed on some of the issuer's new internal control policies (which were only adopted on the day of the issuance of the final review report), or the follow-up review covered a very short period of merely two days. In these cases, the Exchange did not question the consultants as to whether their review had properly verified the issuers' actual implementation of the remedial measures.
 - In three other cases, although the follow-up review covered a longer period of time, the consultant still did not have an opportunity to review whether certain new policies or procedures (eg, those relating to connected transactions or external investments) had been complied with in practice because no relevant transaction or event took place during the follow-up review period. The Exchange did not

²⁶ See paragraph 24.

appear to have followed up on this aspect, except in one case where the issuer undertook to further review the relevant areas after trading resumption.

43. The Exchange informed us that, where there was practical difficulty to test the actual implementation of certain control policies before the resumption deadline because the relevant transactions were not conducted frequently and did not take place during the follow-up review period, the Exchange allowed trading resumption after taking into account the following factors: (i) the issuer had adopted the enhanced internal control policies and fulfilled all other resumption conditions, (ii) the audit committee had confirmed the adequacy of the internal control systems and procedures, and (iii) the Exchange considered that withholding a trading resumption to extend the follow-up review period was not in the interest of the issuer, its shareholders and the market, and was contrary to the general principle to keep a trading suspension as short as possible.

The Exchange's vetting of internal control reviews pursuant to disciplinary directions

44. Where the Listing Committee imposes a direction of internal control review in a disciplinary case, the decision letter typically sets out a detailed timetable of the review that the issuer should follow. The issuer is typically required to submit the proposed scope of the retainer of the independent consultant to the Exchange for comment and finalise the engagement within two weeks of the publication of the disciplinary statement, provide the report of recommendation to the Exchange within two months, and submit the report of full implementation within another two months.
45. In the disciplinary cases reviewed, the issuers submitted the proposed work scope of the independent consultant, the report of recommendation and the report of implementation to the Exchange according to the requirement of the disciplinary decision letter. In one of the cases, the Exchange issued comments and required the issuer to expand the scope of the retainer.
46. As the direction imposed referred to ensuring compliance with the relevant rules that had been breached in the case²⁷, the internal control review scope in these cases generally only covered the processes relating to the rule breaches and did not extend to the issuer's ability to comply with its obligations under the Listing Rules in general.
47. For the issuers to be considered compliant with the direction, in the cases reviewed, the Exchange required the independent consultant to report that the remedial measures had been implemented.

Independence and qualification of internal control consultant

48. The resumption condition imposed in long-suspension cases and the direction issued in disciplinary cases required the internal control review to be conducted by an *independent* consultant.
49. In the long-suspension cases reviewed, the Exchange did not require the issuers to submit information on the independence or qualification of the internal control consultant retained by the issuers. The Exchange informed us that it generally relied on the issuer's independent committee to make those assessments. However, we noted that an independent committee was established in only some (but not all) of the

²⁷ See paragraph 17.

cases reviewed and there is no express requirement for all members of the independent committee to be independent non-executive directors²⁸. In some cases, although an independent committee was set up, it was not responsible for appointing the internal control consultant. This may cast doubt on the independence and objectivity of the external consultant retained.

50. In disciplinary cases, LRE is tasked with vetting the retainer of the internal control consultants²⁹. We noted that in one of the two cases reviewed, the consultant's credentials were included in the proposed retainer submitted for the Exchange's review. The Exchange did not otherwise require the issuers to provide information on the independence and qualification of the consultants in these cases.

Issuers' announcements relating to internal control review

51. In the cases reviewed, the Exchange generally required the issuers subject to the internal control review resumption condition to announce the internal control deficiencies identified, the findings and recommendations in the review report and the remedial actions taken or to be taken, as required by the Delisting Guidance Letter³⁰.
52. Where the issuer voluntarily conducted an independent internal control review without being imposed with the resumption condition, as well as in disciplinary cases, the Exchange did not require the issuers to announce information to the level required of long-suspended issuers subject to the relevant resumption condition. The Exchange informed us that it has adopted a new approach for enhanced disclosure in disciplinary cases commenced in July 2025, requiring issuers to announce, amongst others, the review methodology, findings and recommendations, implementation measures, and the confirmation of the issuer's board on the effectiveness of the issuer's internal controls.

SFC observations

53. Before trading in a long-suspended issuer's securities is allowed to resume, the Exchange should be satisfied that all material deficiencies in the issuer's internal controls have been fully addressed to avoid a recurrence of the issues leading to the trading suspension and that the issuer has adequate and effective internal controls to ensure compliance with the Listing Rules and to safeguard its assets and interests.
54. The Delisting Guidance Letter and LRE's internal procedures set out the steps that the Exchange would take to follow up on independent internal control reviews conducted by long-suspended issuers. We set out below our observations and recommendations with respect to the Exchange's vetting and follow-up actions.
55. At the outset, it is important that the Exchange consistently identifies those suspension cases with indications of material internal control deficiencies and imposes a resumption condition of independent internal control review in these cases to verify that such issuers have adequate internal controls to meet their obligations under the Listing Rules and safeguard their assets and interests. As discussed in paragraphs 27 and 28, we observed differences in the Exchange's handling of the cases reviewed. The Exchange informed us that it has subsequently enhanced its practice to impose the resumption condition to conduct an independent internal control

²⁸ See footnote 20.

²⁹ See paragraphs 17 and 44.

³⁰ See paragraph 30(b).

review more frequently in cases of accounting or corporate irregularities requiring an independent investigation, but this practice has yet to be reflected in its written procedures or guidance³¹. We recommend that the Exchange formalise this practice and provide further guidance to Listing Division staff to promote consistency and effectiveness in identifying cases where an independent review (regarding the general adequacy of the issuer's internal controls) should be imposed as a resumption condition.

56. In long-suspension or disciplinary cases where an independent internal control review is required, the Exchange should be satisfied that the scope of the review is adequate³². Where an extended failure to publish financial statements raises questions about the general adequacy of the issuer's financial reporting controls, the Exchange staff should maintain some professional scepticism regarding how the directors are discharging their duties, and should place more reliance on the independent internal control consultant and external auditor to verify the adequacy of the issuer's internal controls. In these cases, the Exchange should consider requiring the independent internal control consultant to issue an opinion or confirmation to the Exchange that the consultant has completed an appropriate review of the issuer's internal control systems and procedures and, after consulting the issuer's external auditor, is of the view that (i) the identified material deficiencies that led to the trading suspension or disciplinary action have been rectified and all necessary remedial measures have been implemented³³, and (ii) the internal controls of the issuer are adequate and effective to serve their purposes and enable the issuer to comply with the Listing Rules and other legal and regulatory requirements on financial reporting, disclosure of notifiable and connected transactions and inside information.
57. In the event that there is insufficient opportunity for the consultant to review the implementation of certain internal control policies and procedures (because, for example, the issuer has not yet conducted a relevant transaction during the review period), but the Exchange, after considering all relevant factors, is minded to allow trading to resume, the Exchange should consider requiring the issuer to arrange a follow-up review on those areas within a reasonable period or take other steps to ensure there is active ongoing monitoring by the issuer's audit committee (in consultation with the issuer's external auditor) of the relevant compliance by the issuer as well as regular reporting to the Exchange for a specified period after trading resumption. This approach should be adopted for disciplinary cases with an internal control review direction as well.
58. The Exchange is recommended to require the consultant to submit (i) a declaration that it is independent with respect to the issuer by reference to the applicable professional standards, and (ii) information demonstrating its credentials, qualification

³¹ See paragraph 29.

³² In this connection, we note that the revised CG Code, which became effective on 1 July 2025, makes it a mandatory requirement that an issuer must conduct a review on the effectiveness of its internal control systems and those of its subsidiaries at least annually, covering all material controls (see Corporate Governance Code, Part 2, D.2.1 and [Corporate Governance Guide for Boards and Directors](#), Chapter 4, paragraphs 19 and 20). In addition, the Exchange has publicly referred directors of issuers to HKICPA's [Technical Bulletin](#) on accounting firms' review of new listing applicants' internal controls (Appendix 3 of the Technical Bulletin sets out an illustrative scope of a comprehensive internal control review), which also serves as useful guidance for directors of listed issuers in reviewing the issuers' internal controls (see [Enforcement Bulletin on Internal Controls](#) (February 2022) and [Consultation Paper on Review of Corporate Governance Code and Related Listing Rules](#) (June 2024)). These related rules and guidance are helpful reference for the scope of internal control reviews conducted in the context of long-suspension cases or disciplinary cases.

³³ The implementation should comprise both adopting written internal control policies and procedures, and the actual implementation of and adherence to the policies and procedures in the issuer's operations and activities.

and experience in conducting reviews for listed issuers, and check that it is suitable to discharge the duties to the expected standards.

59. Audit committees of listed issuers are the gatekeepers of the interest of the investing public. A robust internal control system is essential to support the issuer's financial reporting and audit functions, and should be subject to the oversight of the audit committee. Currently, there is no requirement for the issuer's audit committee to oversee the independent internal control review, and in the cases reviewed, the level of involvement of the audit committee varied. To ensure the impartiality, objectivity and quality of the review, the Exchange is recommended to consider requiring in appropriate cases that:
- (a) the issuer's audit committee (or, in cases where the issuer is unable to maintain an audit committee during the long suspension, an independent committee³⁴) lead the independent internal control review and actively work with the independent consultant and the issuer's auditor, and
 - (b) the members of the audit or independent committee confirm to the Exchange and disclose in the issuer's announcement the following information (before trading is allowed to resume in the case of a long-suspended issuer):
 - that they have reviewed and are satisfied with the independence, credentials, qualification, experience and resources of the independent internal control consultant,
 - that they have (i) reviewed the internal control review report and (ii) satisfied themselves that all material deficiencies have been rectified and that the issuer has adequate and effective internal controls to ensure compliance with its Listing Rule obligations and to safeguard its assets and interests, and
 - the detailed steps taken by them to support the above confirmations.
60. The Exchange is recommended to provide training and other capacity-building resources to the audit committees and other board members of listed issuers to enhance their ability to understand their duties and oversee issuers' internal controls.
61. The Exchange is also recommended to standardise its approach in vetting issuers' announcements and ensure fair and accurate disclosure of the internal control review findings and recommendations, the progress of implementing the remedial measures and the view of the internal control consultant and the audit committee, regardless of whether the review is conducted pursuant to a resumption condition, a direction in disciplinary cases, or voluntarily.

³⁴ As noted in footnote 20, the Exchange's guidance letter provides that where a long-suspended issuer is required to conduct an independent investigation, it should set up an independent committee to review the issues and conduct the investigation.

The Exchange's vetting of listed issuers' handling of late auditor resignations

Introduction

62. Timely publication of quality financial reports is critical to an informed and efficient market. While well-managed changes of auditors at listed issuers' annual general meetings (**AGM**) may indicate good corporate governance, sudden and unplanned resignations close to or even after the issuers' financial year end impose tight time constraints on the incoming auditors to complete the audit before the deadline to announce the financial results and may compromise the audit quality. In addition, they are red flags for investors and regulators that may signal governance, financial reporting, and risk control issues, particularly issues in the financial statements or difficulties encountered in conducting the audit by the outgoing auditors.
63. The issuer's audit committee, the outgoing auditor and the incoming auditor have their respective responsibilities and duties with respect to a late change in auditors.
64. While the AFRC, as the independent regulator of the accounting profession, oversees the professional conduct and standards of the auditors, the Exchange, as the frontline regulator of listed issuers, plays a vital role in ensuring that audit committees discharge their duties to monitor the audit process to mitigate the likelihood of a late change in auditors. The Exchange is also responsible for supervising that, when a late change does occur, the issuer makes full and accurate disclosure to the shareholders and ensures that the late change does not compromise audit quality.
65. The Listing Rules and the Exchange's published guidance set out the general obligations of audit committees with respect to changes in auditors. The Exchange also refers³⁵ issuers to the more extensive guidance issued by the AFRC to the market, which articulates the AFRC's observations of the issues surrounding late auditor resignations and its expectations on the outgoing auditors, the incoming auditors and issuers' audit committees³⁶.

Relevant Listing Rules and guidance

66. Pursuant to the Listing Rules, an issuer must at each AGM appoint an auditor to hold office from the conclusion of that meeting to the next AGM³⁷. The appointment, removal and remuneration of auditors must be approved by the shareholders³⁸.
67. An issuer must publish an announcement as soon as practicable in regard to any change in its auditors, the reasons for the change and any other matters that need to be brought to the attention of its securities holders (including, but not limited to, information set out in the outgoing auditors' confirmation in relation to the change in auditors)³⁹.

³⁵ [Listed Issuer Regulation Newsletter](#) (December 2022) and [Enforcement Bulletin on Resignation Announcements](#) (March 2023).

³⁶ [Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors](#) (December 2021), [Open letter on late changes in auditor appointments](#) (October 2022), [Follow-up open letter on additional issues regarding late changes in auditor appointments](#) (January 2023), [AFRC Addresses Concerns Surrounding Auditor Changes](#) (September 2023), [Guidance Notes on Change of Auditors](#) (September 2023).

³⁷ Rule 13.88.

³⁸ Appendix A1 to the Listing Rules, paragraph 17. When the current auditor resigns, the Exchange's guidance permits the issuer's board to appoint an auditor to fill a casual vacancy and hold office until the next AGM. The Exchange also permits an issuer's constitutional documents to provide that the auditor's remuneration is to be fixed either by an ordinary resolution passed at a general meeting, or in the manner specified in such a resolution. See the Exchange's Frequently Asked Questions 080-2022.

³⁹ Rule 13.51(4). The issuer must state in the announcement whether the outgoing auditors have provided a confirmation

Role of audit committee

68. An issuer's audit committee is primarily responsible for making recommendations to the board on the appointment, reappointment and removal of the external auditor, approving its remuneration and terms of engagement, and raising questions on its resignation or dismissal. The audit committee is also responsible for reviewing and monitoring the auditor's independence and objectivity, and the effectiveness of the audit process⁴⁰.
69. Audit committees should only remove auditors in extreme situations. If the audit committee is not satisfied with the quality of the audit provided by the audit firm, the committee should consider not reappointing the incumbent auditor at the next general meeting when its term expires except in extreme circumstances. If there are genuine audit quality issues, the audit committee should raise them with the auditor in an attempt to have them addressed⁴¹.
70. In December 2022 and June 2023, the Exchange issued guidance⁴² to the market that it expects the audit committees to:
- (a) maintain a dialogue with the auditors throughout the audit process and keep apprised of any contentious audit issues;
 - (b) monitor the timing of issuers' audit fee discussion with auditors to mitigate the likelihood of a late auditor change;
 - (c) understand clearly the underlying reasons for the auditor's resignation and ensure accurate disclosure in the auditor's resignation letter and the resignation announcement. In particular, where audit issues have been identified by the outgoing auditor, the issuer's announcements should explain why a change in auditors could expedite the audit process or resolve the audit issues, and disclose the role of its audit committee and the actions it had taken in relation to the audit process or the auditor change;
 - (d) critically review the capabilities and resources of the incoming auditors and ensure that audit fees are commensurate with the extent of audit work required; and
 - (e) discuss with the incoming auditors to assess whether they clearly understand the reasons leading to the outgoing auditors' resignation and how their proposed audit procedures can address those issues.

The Exchange's vetting of issuers' handling of late auditor resignations

71. We assessed the Exchange's processes, procedures and practice for vetting late auditor resignations, including its review of audit committees' discharge of their duties in this connection.

that there are no matters that need to be brought to the attention of securities holders. If no such confirmation has been provided, the announcement must state the reason for this.

⁴⁰ Corporate Governance Code, Part 2, D3.3(a) and (b).

⁴¹ [Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors](#) (December 2021).

⁴² [Listed Issuer Regulation Newsletter](#) (December 2022) and [Listed Issuer Regulation Newsletter](#) (June 2023).

72. Pursuant to LRE's internal procedures, when there is a change in auditors, the case team should:
- (a) obtain a copy of the auditor's resignation and clearance letters and ascertain whether the reasons for resignation are consistent with those disclosed in the issuer's announcement; and
 - (b) make enquiries on (i) whether the audit committee agreed with the reasons for the change and is satisfied with the selection of the incoming auditors, and (ii) whether any matters need to be brought to shareholders' attention.
73. LRE's internal procedures further provide that where the outgoing auditor indicated that there were unresolved audit issues, but the incoming auditor indicates that it will issue a clean audit opinion, the team should:
- (a) raise enquiries with the issuer and understand the nature of the unresolved audit issues, the issuer's proposed plan to address them, and whether the board and the audit committee have discussed with the auditor and are satisfied that such a plan can address the audit issues; and
 - (b) pre-vet the announcement once the audit issues are resolved. The announcement should disclose the audit procedures taken by the auditor and whether the audit committee is satisfied that the audit issues have been fully addressed.
74. The internal procedures also state that the audit committee should consider audit quality (being the key determinant) and audit fees in selecting and appointing auditors, and refer to the factors for evaluating the quality of auditors⁴³ and the reasonableness of the audit fees⁴⁴ contained in the AFRC guidelines⁴⁵.

Cases reviewed

75. There were 89 cases where the deadline for the publication of the issuers' annual results fell within 2024 and the auditors resigned within four months before the deadline. These resignations occurred for the following reasons:
- (a) 66 were due to disagreement over audit fees⁴⁶;
 - (b) nine were due to unresolved audit issues or the inability to agree on the audit timetable;

⁴³ In evaluating the quality of auditors, the audit committee should consider a wide range of factors, including the audit firm's governance and leadership, compliance with relevant ethical requirements, industry knowledge and technical competence, engagement performance, communication and interaction with the audit committee, and audit inspections results and regulatory outcomes.

⁴⁴ The AFRC expects audit committees to consider the reasonableness of the proposed audit fees in light of the size and structure of the issuers and the nature and complexity of issuers' businesses, amongst other factors. Audit committees should also obtain a breakdown of proposed audit fees and compare it against competing firms so as to assess the reasonableness of the proposed fees. The breakdown should be made by: (i) seniority of staff members (ie, the number of hours that the audit partner, audit managers, specialists, and other team members will dedicate to the audit), (ii) geographical locations of the issuer's businesses (ie, the amount of audit fees allocated by the audit firm to component auditors at each location) and (iii) business segments of the issuer (ie, the amount of audit fees allocated by the audit firm to the audit of each business segment).

⁴⁵ [Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors](#) (December 2021).

⁴⁶ Including 58 cases only due to audit fee disagreement, and eight cases due to audit fee disagreement and the auditors' consideration of professional risk and internal resources.

- (c) three were due to corporate governance considerations; and
 - (d) 11 were due to other reasons.
76. Among these 89 cases,
- (a) 20 issuers failed to publish their audited results by the deadline stipulated by the Listing Rules;
 - (b) in 35 cases, the incoming auditors completed the audit within three months of their appointment (and in 11 cases, within two months);
 - (c) in 13 cases, the new auditors issued *qualified* audit opinions; and
 - (d) four issuers had received qualified audit opinions from their outgoing auditors in the prior year but were given a clean audit opinion in 2024 from the incoming auditors.
77. We reviewed the case files of a representative sample of 24 cases covering a range of reasons giving rise to the resignations and the different audit outcomes. Our findings are set out in paragraphs 78 to 106 and our observations and recommendations are set out in paragraphs 107 to 121.

Disclosure of reason for resignation

78. In the cases reviewed, when an issuer announced a change in auditors, the Exchange made enquiries with the issuer and drew the issuer's attention to the relevant guidance issued by the Exchange⁴⁷ and the AFRC⁴⁸. The Exchange requested the issuers to provide a copy of the resignation letters and their audit committees' views on (a) the disclosure of the reasons for resignation in the announcements, (b) the incoming auditors' independence, competence and capability, and (c) the incoming auditors' audit plans.
79. However, we noted from our review that the Exchange's follow-up on inaccurate or questionable disclosures provided by the issuers in several cases could be enhanced.

Inaccurate disclosures

80. In four cases, the reasons disclosed in the announcements were inconsistent with the reasons set out in the resignation letters. In one case, the Exchange did not follow up on the inconsistent disclosure as it did not consider the disclosure to be inaccurate⁴⁹. In the other three cases, the issuers published supplemental announcements to amend the disclosure upon enquiries by the Exchange⁵⁰.

Vague or dubious disclosures

81. In several cases reviewed, the reasons cited for the late resignations raised questions as to why it was necessary to effect the changes at a late stage, thereby risking a

⁴⁷ See paragraph 70.

⁴⁸ See paragraph 65.

⁴⁹ In this case, the auditor cited audit fees, audit timetable, professional risk and internal resources in the resignation letter as the reasons for resignation, while the reason disclosed in the announcement was that the issuer could not reach a consensus with the auditor on the audit fee.

⁵⁰ In two cases, the auditors cited audit fee disagreement in their resignation letters, while the reasons disclosed in the initial announcements were seeking better audit services and/ or enhancing corporate governance, including appointing a larger-scale auditor to facilitate further development of the company.

delay in the publication of the audited results and negative impact on the audit quality, and whether the disclosed reasons were genuine. The Exchange did not follow up adequately on these issues.

82. In one case, the issuer requested its auditor to resign after only three years of service “for the purpose of maintaining good corporate governance”. As noted by the AFRC, a proper rotation for corporate governance purposes would take place at the time of the AGM instead of mid-cycle, providing shareholders with the ability to scrutinise and question the selection and appointment of the incoming auditor. Therefore, in its public letters on this topic, the AFRC expressed scepticism towards issuers who use corporate governance as a generic reason for late auditor changes and expects issuers to explain in an announcement why the change did not take place at the AGM⁵¹.
83. In this case, although the Exchange asked the issuer to explain why the change had to be made close to the financial year end, when the issuer provided a vague response⁵², the Exchange considered the explanation to be reasonable and did not follow up further or require the issuer to issue a supplemental announcement to elaborate the reasons for the late change. In the prior year, the issuer received a disclaimer opinion from the outgoing auditor due to material uncertainties related to going concerns. After the change, the new auditor issued a clean audit opinion. In this respect, the Exchange informed us that, based on the information it received, it did not consider there was a legitimate concern about possible opinion shopping.
84. In two other cases, the issuers announced that the reason for the late change in auditors was that the issuer intended to engage a more sizeable audit firm or an auditor with an international network. The Exchange was satisfied with the disclosed reasons and did not ask the issuers to explain or announce more detailed reasons for the sudden late change.

Disagreement over audit fees

85. Disagreement over audit fees was the most common reason cited for late auditor resignations. These resignations raised concerns over both the genuineness of the reason as well as the impact on audit quality.
86. As observed by both the Exchange⁵³ and the AFRC⁵⁴, disagreement over audit fees has sometimes been used as a catch-all reason to disguise the deeper underlying issues that caused the resignation. According to the AFRC, auditors should discuss and agree with the audit committees the proposed audit fees prior to seeking a reappointment at the AGM, and any subsequent disagreement over audit fees is expected to be attributed to a change in audit scope, which should be properly disclosed in the resignation letter⁵⁵.

⁵¹ [Follow-up open letter on additional issues regarding late changes in auditor appointments](#) (January 2023) and [Guidance Notes on Change of Auditors](#) (September 2023).

⁵² The issuer informed the Exchange that its board considered that “a rotation of auditor will enhance the objectivity and persuasiveness of the external auditor”, as “a new external auditor would be able to advise on the group’s financial and risk management system from a new perspective” and “on any effective measures to improve the financial position of the group. . . to further enhance the overall performance and practice of the group”.

⁵³ [Enforcement Bulletin on Resignation Announcements](#) (March 2023).

⁵⁴ [Follow-up open letter on additional issues regarding late changes in auditor appointments](#) (January 2023).

⁵⁵ [Guidance Notes on Change of Auditors](#) (September 2023) and [Upholding trust in capital markets: Maintain healthy practices in auditor appointments and audit fee setting](#) (July 2025).

87. Even when fee disagreement is the genuine reason for the resignation, overly low fees coupled with the late appointment of the incoming auditor runs a high risk of compromising the audit quality⁵⁶. The Exchange's published guidance requires the audit committee to monitor the timing of the issuer's audit fee discussion with auditors to mitigate the likelihood of a late auditor change and to ensure that audit fees are commensurate with the work required⁵⁷.
88. In the cases reviewed, where disagreement over audit fees was cited as the reason for resignation, the Exchange requested the issuers to provide the audit fees charged by the outgoing and incoming auditors respectively and the audit committees' views on whether the new agreed fee was commensurate with the work required.
89. However, the Exchange did not normally follow up on the information provided by the issuer to assess whether full and accurate disclosure had been made about the reason for the resignation, and how the audit committee discharged its duty to ensure that the audit fee was commensurate with the extent of audit work required and that audit quality would not be compromised due to reduced fees. Below are examples of the information provided by issuers and the questions that *could have been asked* in response:
- (a) When the fee charged by the incoming auditor was substantially lower than the fee quoted by the outgoing auditor - what were the reasons for the difference and whether the new fee was indeed commensurate with the audit work required?
 - (b) When the fee charged by the incoming auditor (plus the fee paid to the outgoing auditor for work already performed where applicable) was similar to or even higher than the fee originally quoted by the outgoing auditor - why was it still necessary to change the auditor at the late stage or whether audit fee disagreement was merely used as a disguise of other reasons?
90. The Exchange explained that it is not in a position to conclude whether the audit fees agreed between an issuer and an auditor are appropriate, and its enquiries serve only to remind audit committees of their responsibilities.
91. With respect to the timing for the agreement on audit fees, although the Listing Rules require that the appointment and remuneration of auditors must be approved by the shareholders, the Exchange's guidance to the market permits an issuer's shareholders to approve the appointment of the auditor at the AGM without fixing the amount of audit fees⁵⁸. The AFRC expects that audit fees should be agreed at the time of the appointment of the auditor⁵⁹.
92. In the cases reviewed, it was common for auditors to be appointed at the AGM *subject to finalisation of the audit fee* with the board. When the issuer and the auditor could not agree on the fee close to or even after the financial year end, the disagreement led to late resignations by the auditors in a number of cases⁶⁰. Although the Exchange

⁵⁶ According to the AFRC's [Guidance Notes on Change of Auditors](#), the audit committee should ensure that audit fees proposed by potential incoming auditors are at a level that enables sufficient audit resources to be allocated to perform the requisite audit procedures. In the absence of any significant change in the audit scope, the audit committee should probe the reasons why the potential incoming auditor is able to charge lower audit fees than the outgoing auditor.

⁵⁷ See paragraphs 70(b) and (d).

⁵⁸ See paragraph 66 and footnote 38.

⁵⁹ See paragraph 86.

⁶⁰ There was also a case where the audit fee was agreed early in the process but the issuer requested to renegotiate the

has stated its expectation that audit committees should monitor the timing of issuers' audit fee discussion to mitigate the likelihood of a late auditor change (see paragraph 70(b)), the Exchange did not appear to have followed up on how the audit committees discharged this duty in those late resignation cases.

Audit committees' resolution of outstanding audit issues

93. Where unresolved audit issues are cited as a reason for late changes of auditors and the incumbent auditors are requested to resign by the issuers, such practice indicates possible opinion shopping⁶¹.
94. Pursuant to the Exchange's published guidance, the issuer's announcement should explain why and how the audit issues can be resolved by a change in auditors, and disclose the role and actions of its audit committee in relation to the audit process or the auditor change⁶². LRE's internal procedures also require its staff to take additional vetting steps⁶³.
95. Among the cases we reviewed, six involved resignations due to unresolved audit issues (including delay in obtaining the necessary audit information). We noted in these cases that the Exchange made enquiries with the issuers as to whether the audit committees had (i) obtained an understanding of the outgoing auditors' concerns, (ii) taken actions to resolve the issues with management and the outgoing auditors, and (iii) ensured that the incoming auditors' audit plans were able to address the issues.
96. However, the extent and depth of the Exchange's vetting of the issuers' submissions varied. In two cases, the issuers provided details of the audit issues and the actions taken by the audit committees to resolve them. In both cases, the Exchange conducted additional enquiries to obtain further information on the incoming auditors' proposed approach in addressing those issues. The Exchange also required the issuers to disclose the issues and their resolution in the subsequent annual results announcement or annual report, which the issuers complied with.
97. In a small number of other cases, the Exchange's enquiries and the announcement disclosures appeared inadequate. The Exchange accepted the issuers' confirmation of the audit committees' views without requesting further details or the basis for those confirmations. The Exchange also did not seek to understand the reason why the outstanding issues were left unresolved between the outgoing auditor and the issuer and why changing the auditor could address the issues.
98. In one of these cases, the issuer changed its auditor twice within a three-month period. The first change, four months before the results announcement deadline, was purportedly due to audit fee disagreement. The second change took place around two weeks before the results announcement deadline, due to a lack of consensus on the audit timetable caused by a delay in the auditor obtaining information in relation to unresolved audit issues from management.

fee less than three months before the deadline for the publication of the annual results due to cost control measures, with no indication of any change in the audit scope, and the outgoing auditor indicated that there was no room for fee reduction in order to maintain the audit quality. Upon the Exchange's enquiry, the issuer submitted that the incoming auditor's fee was approximately 40% of the outgoing auditor's proposed fee. The Exchange did not further follow up to ask the issuer to explain or announce how its audit committee was satisfied that the reduced audit fee was commensurate with the work required and audit quality would not be comprised, as required under the Exchange's published guidance (see paragraph 70(d)).

⁶¹ [Guidance Notes on Change of Auditors](#) (September 2023).

⁶² See paragraph 70(c).

⁶³ See paragraph 73.

99. In response to the Exchange's enquiry, the audit committee noted that the incoming auditor would only be able to issue the audit report around two months after the results announcement deadline. The Exchange did not pursue clarification on the underlying causes of the delay of provision of information by the management, the steps taken by the audit committee in addressing the delay, or the audit committee's mechanism to monitor the audit process. The issuer's results were eventually published around two months after the publication deadline, with a clean audit opinion.

Audit committees' evaluation of audit plan and quality of incoming auditors

100. Late changes in auditors pose special challenges to the planning and resources on the part of the incoming auditors who would have to complete the first-year audit (which is more complex and time-consuming) within a shorter-than-usual timeframe. The Exchange's published guidance requires audit committees to critically review the capabilities and resources of the incoming auditors and how their proposed audit plan can address the issues giving rise to the outgoing auditors' resignation⁶⁴.
101. In general, we noted that the AFRC expects auditors of listed issuers to start their audit planning as soon as practicable and no later than three months before the end of the financial reporting period⁶⁵. In all the late auditor resignation cases reviewed by us, the audit process fell short of that timing. In such cases the incoming auditors would likely be facing significant challenges in properly completing the audit before the results publication deadline⁶⁶. Therefore, the issuers (who have the ultimate obligation to ensure the accuracy and reliability of their published financial information) should be required to demonstrate, with sufficient reasons, that despite the late change, the incoming auditors will be able to complete the audit on time without compromising the quality.
102. In the cases reviewed, the Exchange routinely requested the audit committee to confirm that it is satisfied with the independence, competence and capability of the incoming auditor as well as its proposed audit plan such that the results can be published by the deadline. However, the Exchange did not always require the issuer to submit or announce detailed basis for such confirmation.
103. In several cases, the issuers' confirmations as to the incoming auditors' quality were limited to a bare statement without elaboration of the factors considered by the audit committees, as set out in LRE's internal procedures (which also refer to the relevant AFRC guidance)⁶⁷, and the Exchange did not follow up to obtain additional supporting information.
104. In three cases, only less than 2.5 months remained between the auditor resignation and the annual results publication deadline, but the Exchange did not obtain further information on how the audit committees satisfied themselves that the incoming auditors could complete the audit without compromising the audit quality despite the limited timeframe. The Exchange explained that the primary purpose of its enquiries is to raise awareness of the audit committees' responsibilities and it would challenge the audit committees' assessment only in extreme cases or where there are Listing Rule breaches.

⁶⁴ See paragraphs 70(d) and (e).

⁶⁵ [AFRC Addresses Concerns Surrounding Auditor Changes](#) (September 2023).

⁶⁶ According to AFRC's [2024-2025 Annual Inspection Report](#), among the engagements inspected by AFRC, eight involved late changes of auditors and none of these eight engagements received satisfactory inspection results with six of them receiving an audit quality rating of 4 (significant improvements required).

⁶⁷ See paragraph 74.

Resignation at issuer's request

105. Although the Listing Rules prohibit issuers from *removing* their auditors without first obtaining shareholders' approval⁶⁸, it is not clear whether issuers may *request* their auditors *to resign* without shareholders' approval. The Exchange's guidance permits the issuer's board to appoint an auditor to fill a casual vacancy and hold office until the next AGM⁶⁹.
106. In 11 cases reviewed, the auditors stated in the resignation letters that they were requested by the issuers' boards to resign, or that the issuers informed the auditors of their decision to change the auditors. By requesting auditors to resign, issuers may effectively circumvent the Listing Rule's requirement to obtain shareholders' approval for the removal of their auditors.

SFC observations

107. The investing public relies on timely publication of reliable financial information to make informed investment decisions. Late auditor resignations are red flags of potential issues in an issuer's financial reporting and corporate governance, and they should be limited to only the extreme circumstances. The Exchange has issued a series of public guidance relating to late auditor resignations to emphasise the audit committees' duties to actively manage the financial reporting and audit process, resolve audit issues, oversee the timeliness and quality of the audit and make accurate disclosures. The Exchange also refers issuers to the extensive guidance published by the AFRC.
108. From the cases reviewed, we noted that some issuers and their audit committees have failed to meet their obligations and expected standards set out in these guidance, and the Exchange's follow-up actions could be enhanced, as discussed below.

Safeguarding shareholders' rights and reducing frequency of late auditor resignations

109. The Listing Rules require listed issuers to appoint their auditors at the AGM and require the appointment, removal and remuneration of auditors to be approved by the shareholders. The expectation is that a change in auditor should normally take place at the AGM, giving shareholders the opportunity to scrutinise the selection, appointment and remuneration of the auditor.
110. The AFRC expects that audit fees should be agreed before appointment of the auditor (and any subsequent disagreement is expected to be attributed to a change in audit scope, which should be properly disclosed)⁷⁰.
111. However, the guidance issued by the Exchange allows the audit fee to remain undecided after the AGM⁷¹, making it possible for a subsequent disagreement over the fees to become (or be used as) the reason for a change of the auditors which have been approved by the shareholders⁷². Issuers are also allowed to circumvent the

⁶⁸ See paragraph 66.

⁶⁹ See footnote 38.

⁷⁰ See paragraph 86.

⁷¹ See footnote 38.

⁷² See paragraphs 91 and 92.

shareholder approval requirement by requesting their auditors to resign instead of removing them⁷³.

112. The AFRC has stated that these practices could effectively undermine the fundamental right of shareholders to approve the appointment of the listed issuers' auditors⁷⁴, which is an important check-and-balance under the Listing Rules. Where an issuer requests the auditor to resign when there are unresolved audit issues, there are potential concerns regarding the possibility of opinion shopping by the issuers and the oversight role of audit committees.
113. To reduce the frequency of late changes in auditors, the Exchange is recommended to:
- (a) amend its guidance to the market in light of the guiding principle issued by the AFRC that listed issuers should agree with their auditors on the audit fees when the auditors are appointed at the AGM and, in consultation with the AFRC, develop further guidance on the circumstances or mechanism of reasonable adjustments to the fees and the proper disclosure to be made; and
 - (b) prevent the circumvention by issuers and treat requests by issuers for their auditors to resign as if they were a removal under the Listing Rules.

Heightened scrutiny where late resignation occurs

114. In cases where a late auditor resignation is unavoidable, the Exchange is recommended to enhance its scrutiny of the process to ensure that: (i) there is full and accurate disclosure of the reasons for the resignation and any outstanding audit issues; and (ii) the audit committee has duly discharged its duties to oversee the effectiveness of the audit process, as further discussed below.

Disclosure of reason for resignation

115. We noted several cases where issuers made inaccurate or inconsistent disclosures on their auditors' resignations⁷⁵. To deter deliberate or grossly negligent misstatements, the Exchange is recommended to consider taking regulatory action for deficient disclosure in appropriate cases, in addition to requiring a supplemental announcement to rectify the disclosure.
116. Where the resignation reasons announced by the issuer appear questionable⁷⁶, the Exchange is recommended to make appropriate follow-up enquiries, request supporting evidence and require more detailed disclosures to be made by way of supplemental announcements. In cases where there are red flags that false representation might have been made by the issuer and/or resigning auditor, the Exchange should consider taking appropriate regulatory actions or making referrals to the relevant authorities.
117. When audit fee disagreement is cited as the reason for resignation, to provide transparency to the market, the Exchange should consider asking for detailed basis

⁷³ See paragraphs 105 and 106.

⁷⁴ [Analysis of Listed Entities Suspended from Trading Due to Delay of Preliminary Annual Results Announcement](#) (July 2024).

⁷⁵ See paragraph 80.

⁷⁶ See paragraphs 81 to 84.

for the fees quoted by the two auditors, including appropriate breakdown information⁷⁷. Where appropriate, the Exchange is recommended to consider requiring the issuer to (i) explain and announce the major factors underlying the different fees (such as any material differences in the audit approaches, the scopes of audit work and the resources proposed to be committed by the two auditors), and (ii) demonstrate and announce, with basis, how the audit committee discharges its duty to ensure that audit quality would not be compromised due to reduced fees. If the fee difference is minor, the Exchange should also consider asking the issuer to demonstrate why there is a compelling need to change the auditor at a late stage due to “audit fee disagreement” and announce the details.

Audit committees’ resolution of outstanding audit issues

118. Where auditors resign due to unresolved audit issues (including a delay in obtaining the necessary audit information)⁷⁸, the Exchange’s published guidance requires the issuer’s announcement to explain why and how the audit issues can be resolved by a change in the auditor, and disclose the role and actions of its audit committee in relation to the audit process or the auditor change⁷⁹. LRE’s internal procedures also require its staff to take additional vetting steps⁸⁰. We recommend that the Exchange follow up with the issuers to get to the bottom of the problems by making the following enquiries and requiring issuers to announce the relevant information in line with the Exchange’s guidance:

- details of the outstanding audit issues;
- what audit information was requested by the outgoing auditor, what has been provided and what has not;
- detailed reasons why the issuer was unable to provide the requested audit information;
- the reason why changing the auditor would resolve the issues, including but not limited to the incoming auditor’s audit plan and audit procedures for resolving the issues, and whether the incoming auditor would request the same information that was requested by but not provided to the outgoing auditor (if not, why not); and
- the role and actions of the audit committee in resolving the issues, with details.

Audit committees’ evaluation of audit plan and quality of incoming auditors

119. The Exchange’s published guidance requires the audit committee to discuss with the incoming auditor its audit plan and critically review its capabilities and resources⁸¹. We noted that the Exchange’s vetting of the audit committees’ confirmation with respect to the audit plan and the quality of the incoming auditors could be enhanced in some cases⁸². Given the risks brought by a late auditor change on the audit quality, the Exchange is recommended to follow up on the audit committees’ discharge of their duties in line with the Exchange’s published guidance. The Exchange is

⁷⁷ See footnote 44.

⁷⁸ See paragraphs 95 to 99.

⁷⁹ See paragraph 70(c).

⁸⁰ See paragraph 73.

⁸¹ See paragraphs 70(d) and (e).

⁸² See paragraphs 102 to 104.

recommended to enhance its scrutiny and request the issuer to provide details of the incoming auditor's audit plan (including its audit approach, proposed timetable with detailed procedures and steps, and human resources to be committed), and ask the issuer to demonstrate the basis for the audit committee's view that the proposed audit timetable is reasonable and sufficient for the incoming auditor to complete all necessary audit procedures without compromising audit quality and that the auditor's committed resources are adequate to achieve the proposed audit timetable.

120. The Exchange is also recommended to require the audit committee to provide details on how they have taken into account the key considerations⁸³ (as set out in LRE's internal procedures, which also refer to the relevant AFRC guidelines) in assessing the quality of the incoming auditors.
121. The Exchange is further recommended to vet the results announcements of issuers with late auditor resignations with heightened scrutiny. In cases where there is a reasonable concern that the audit quality might have been compromised, the Exchange should consider making referrals to the appropriate authorities.

⁸³ See footnote 43.

Section 3: Follow-up on 2024 and 2022 Reviews

Follow-up on 2024 review

122. In 2024, we reviewed the Exchange's performance in its regulation of listing matters during 2022 and 2023. We identified several areas for potential improvement and made recommendations for the Exchange to consider. This section discusses the steps taken by the Exchange in response to our recommendations in the 2024 review report.

The Exchange's handling of issuers' non-compliance with the Listing Rule requirements on disclosure of material information

123. We reviewed the Exchange's handling of issuers' non-compliance with the Listing Rule requirements on disclosure of material information.

124. We noted that during the review period, the Exchange identified nearly 400 cases in which the issuers failed to comply with the Listing Rule requirements on timely disclosure of material information. Most of these cases involved a failure to comply with the announcement, circular and shareholders' approval requirements for either a notifiable transaction or a connected transaction. An estimated one fourth of these cases involved breaches of the requirements for major or more significant transactions or connected transactions. Based on the sample cases selected for review, only a small percentage of these breaches were referred to Listing Enforcement for formal investigation.

125. We recommended that:

- (a) the Exchange should adopt measures designed to improve issuers' compliance and standards with respect to the notifiable and connected transaction rules;
- (b) the Listed Issuers Regulation (**LIR**) department should actively follow up with listed issuers to enhance their systems and controls in order to improve their ability to comply with these Listing Rules. Amongst other things, the issuer should issue an announcement regarding the Listing Rule breach that has taken place and draw up a remedial plan;
- (c) LIR should review whether the issuer's remedial plan is adequate to remedy the flaws that led to the breach, follow up at appropriate time intervals on the issuer's implementation of the plan, and request the issuer to publicly announce any material change or deviation therefrom;
- (d) the Exchange should review its policies, systems, processes and procedures for handling these types of Listing Rule breaches and impose meaningful sanctions more frequently to send a stronger deterrent message and reduce the incidence of such Listing Rule breaches among listed issuers;
- (e) for novel, complex or difficult cases, the Exchange should publish its listing decisions to send a stronger deterrent message to the market and help other issuers to avoid similar lapses in their disclosure and regulatory compliance controls and processes; and
- (f) in cases where the issuer shows bad faith or gross negligence, the Exchange should adopt a stricter approach towards disciplinary sanctions to send a clear message to the market that such conduct is not tolerated.

SFC observations

126. The Exchange has been reviewing and enhancing its procedures for following up on these non-compliance cases. LRE has updated its operational manual to introduce additional procedures that LRE staff should follow when dealing with suspected Listing Rules breaches involving major or larger transactions and/or connected transactions requiring independent shareholders' approval.
127. Under the new framework, upon identification of a suspected breach involving major or larger transactions and/or connected transactions requiring independent shareholders' approval, the new procedures require the LRE staff to make enquiries with the issuer. Unless a voluntary announcement has been made, the issuer is required to submit to the Exchange for review and announce the following information: (a) a chronology of the events and the flaws that led to the breach, (b) the remedial plan and completion timeline, and (c) (where external assessment or internal control reviews are conducted) the scope and timeline of the reviews, the external consultant's findings and recommendations, and the issuer's proposed remedial measures and completion timeline.
128. Upon completion of the remedial actions, the issuer is required to announce the completion and (where applicable) the confirmation by the issuer's board on the adequacy and effectiveness of the issuer's internal control. Any material change in the proposed remedial actions before completion should be announced as soon as possible.
129. These requirements have been communicated to the market in June 2025 through the Exchange's [Listing Regulation and Enforcement Newsletter](#).
130. LRE has been applying the new procedures in handling non-compliance cases in 2025. As of December 2025, LRE vetted 44 cases pursuant to the new procedures. Warning letters were issued in 20 cases, three cases were referred to LRE's Suspended Issuers & Disciplinary (SI&D) team⁸⁴ for investigation, and LRE's follow-up action was ongoing in 21 cases.
131. We reviewed the case files of two cases where LRE issued warning letters and one case referred to the SI&D team. We noted that in these three cases, LRE has followed the new procedures to make enquiries with the issuers. The issuers have announced the information required under the new procedures and LRE has followed up with the issuers on the proposed remedial actions to prevent a future breach.
132. The Exchange has commenced a review of its approach in taking disciplinary actions against breaches of the notifiable and connected transaction rules. It will take time to evaluate the effectiveness of the new procedures and approach in improving issuers' compliance in this area.

The Exchange's handling of issuers' unusual stock price and volume movements

133. We reviewed the Exchange's processes and procedures for handling issuers' unusual stock price and volume movements.
134. We noted amongst others that:
- (a) the Exchange's internal procedures require LIR staff to look for news on the issuer upon receiving a significant movement alert to decide whether an enquiry

⁸⁴ See paragraph 163.

with the issuer is necessary. However, there are no guidelines on whether the staff should conduct further searches, whether while an enquiry is pending or after the issuer confirms to the Exchange that it is not aware of any particular reason for the significant price or trading volume movement and does not possess any undisclosed inside information (**Negative Confirmation**), before deciding to take no further action;

- (b) there are no guidelines on how LIR staff should evaluate an issuer's response to its follow-up enquiries to determine whether further regulatory action is necessary, and we noted an instance where the Exchange failed to follow up on suspicious circumstances;
- (c) LIR staff exercise a fair amount of discretion and judgment when deciding whether an enquiry should be made upon receiving an unusual movement alert; and
- (d) in one case, the authorised representative was an external service provider that was unfamiliar with the issuer's day-to-day affairs, and this resulted in undue delay and misunderstanding in the issuer's communication with the Exchange.

135. We recommended that:

- (a) the LIR department should update their desktop search on the issuer subject to an enquiry while the enquiry is pending, and maintain this monitoring for an appropriate time period after receiving a Negative Confirmation, before closing a case based on an issuer's Negative Confirmation;
- (b) LIR staff should be given more guidance regarding (i) the objectives of their monitoring and enquiries and (ii) matters that should be checked and considered in each enquiry;
- (c) the relevant guidance and training for LIR staff should be reviewed and, if needed, updated to highlight the importance of conducting critical assessment of the facts and circumstances of each case. The pre-set list of reasons in LIR's case database system for explaining their staff's decisions for closing a case should be enhanced; and
- (d) the Exchange should review its contact person(s) within each listed issuer to ensure that each issuer has designated at least one suitably senior employee with the requisite authority and knowledge of the issuer's business and affairs as the contact point to promptly respond to time-sensitive regulatory enquiries (eg, on unusual price movements).

SFC observations

136. The Exchange provided training to LRE staff on the monitoring of share price and volume movement and media monitoring. The training covered, amongst others, the objectives of the monitoring, the matters to check and consider during monitoring and case studies. LRE staff have been reminded to consider whether desktop searches on media reports are updated after making an enquiry with the issuer, and whether, aside from any potential failure to disclose inside information, there is any other potential non-compliance with the Listing Rules noted during monitoring.

137. The Exchange has enhanced the price and volume monitoring checklist and migrated the monitoring system to LRE's One-stop Processing and Approval System. Case

officers are now able to input their specific assessment in addition to the existing pre-set list of reasons. Furthermore, after making an initial assessment on a case, case officers are required to continue their monitoring until the end of the day and document their final assessment before the case is closed taking into account any subsequent development since their initial assessment.

138. In the [Listing Regulation and Enforcement Newsletter](#) published in November 2024, the Exchange encourages issuers to review their authorised representative designation from time to time to ensure the designates have a good understanding of the issuers' latest developments, ready access to the board and senior officers of the issuers, and the necessary authority to make representations to the Exchange and decisions. Based on information provided by the Exchange, there were still cases where the authorised representatives failed to provide timely and meaningful response to the Exchange's time-sensitive enquiries. We recommend that the Exchange monitor issuers' compliance in this area and take follow-up actions in appropriate cases.

Follow-up on 2022 review

The Exchange's review of business valuations in connection with major (or larger) acquisitions and disposals

139. In 2022, we reviewed the Exchange's processes and procedures for reviewing business valuations in connection with major (or larger) acquisitions and disposals, and recommended that the Exchange take steps to improve the disclosure and other practices among listed issuers.
140. In October 2023, the Exchange published a guidance letter⁸⁵ setting out the information that is expected to be disclosed by a listed issuer on (i) business valuations which form a primary factor in determining the consideration and (ii) the basis of the consideration regardless of whether an independent valuation is disclosed.
141. In our follow-up in 2024, we reviewed the circulars for a sample of major (or larger) transactions which were issued since the publication of the new guidance letter. In the majority of these transactions, issuers generally complied with the disclosure requirements set out in the guidance letter. However, we noted that the disclosure of the basis of consideration in a small number of cases where no independent valuation was obtained appeared to be insufficient and recommended that the Exchange further improve issuers' disclosures and enhance its staff training for the vetting of these transactions.

SFC observations

142. Further training was provided to LRE staff in January 2025 on, amongst others, the application of the guidance letter, the disclosure of transaction considerations without independent valuation and the disclosure of the selection of valuation approaches.
143. We reviewed the circulars for a sample of major (or larger) transactions where no independent valuation was obtained and noted that the issuers have generally followed the requirements set out in the guidance letter to provide adequate and relevant disclosures (both quantitative and qualitative) of the key factors of the determination of the consideration.

⁸⁵ [Disclosure of the basis of consideration and business valuations in notifiable transactions](#), HKEX-GL116-23 (updated in June 2024).

Section 4: Review of Operations of Listing Division in 2024

Overview

144. The following table summarises the operational activity reported by the Exchange in its listing regulation for 2020, 2021, 2022, 2023 and 2024⁸⁶.

	2020	2021	2022	2023	2024
Number of listing applications accepted for vetting by the IPO Vetting department	231	316	187	136	171
Number of listing applications processed by the IPO Vetting department ⁸⁷	N/A	N/A	361	249	250
Number of listing applications approved by Listing Committee	148	118	126	72	79
Number of compliance and monitoring actions handled by the LRE department ⁸⁸	82,228	82,227	67,279	72,036	77,645
Number of investigations handled by the Disciplinary Team ⁸⁹	128	164	141	123	100
Number of Listing Decisions published	6	2	7	0	0
Number of Guidance Letters published	3	1	4	4	2
Number of FAQs published	2 series	2 series	5 series	3 series	2 series
Number of other guidance materials published	7	6	3	5	5
Number of listing applications processed by the Structured Products and Fixed Income department ⁹⁰	50,167	59,491	46,891	30,818	31,644
- Derivative warrants	12,128	16,684	11,874	7,967	6,836
- Callable Bull/Bear Contracts (more commonly known as CBBCs)	38,039	42,807	35,017	22,851	24,808

⁸⁶ Sources: HKEX 2024 Annual Reports and Listing Committee report 2024.

⁸⁷ The number comprises new listing applications accepted in the current year, listing applications brought forward from the previous year, and renewal applications accepted within three months following a lapsed, rejected or withdrawn application by the same applicant. The information for the "number of listing applications processed by the IPO Vetting department" is only available from 2022 due to a change in the disclosure details in HKEX's 2023 Annual Report.

⁸⁸ Compliance and monitoring actions include announcements and circulars vetted, share price and trading volume monitoring actions undertaken and complaints handled.

⁸⁹ See paragraph 163. The Disciplinary Team refers to (i) the Listing Enforcement department before the integration and (ii) the Suspended Issuers & Disciplinary team within LRE after the integration.

⁹⁰ The figures refer to issues of new structured products and do not include further issues.

IPOs

145. The number of listing applications accepted for vetting by the Exchange in 2024 was 171, representing an increase of 35 (or 25.7%) from 136 in 2023.
146. The number of listing applications processed by the Exchange in 2024 was 250, slightly up by 1 (or 0.4%) from 249 in 2023.
147. The median time for the issuance of the first round of comments for IPO applicants was 12 business days in 2024 (2023: 12)⁹¹. The median time taken from the listing application date to the Listing Committee hearing was 139 business days in 2024 (2023: 150). The median number of total business days taken by the Exchange to issue comments from the listing application date to the Listing Committee hearing was 30 business days in 2024 (2023: 45).
148. Following the Exchange's publication in November 2023 of its consolidated Guide for New Listing Applicants, which consolidated and rearranged all guidance materials on IPO-related matters, in 2024 the IPO Vetting department published two batches of updates to the Guide for New Listing Applicants⁹² (2023: two new guidance letters; nil new listing decision).

Listed issuer regulation

149. The number of compliance and monitoring actions handled by the LRE department was 77,645 in 2024 (2023: 72,036), representing an increase of 5,609 (or 7.8%) in 2024. The following is a breakdown of the announcements handled by the listed issuers regulation team in 2023 and 2024.

	Post-vetted	% of total	Pre-vetted	% of total	Total
2023	62,517	99.90	61	0.10	62,578
2024	65,963	99.83	111	0.17	66,074

150. The listed issuers regulation team referred 34 cases to the Disciplinary Team in 2024, down 13% from 39 referral cases in 2023. Referrals to external regulatory bodies⁹³ increased by 58% from 40 cases in 2023 to 63 cases in 2024.
151. In terms of turnaround time, the Exchange:
- post-vetted results announcements within three business days of publication in 99% of the cases in 2024 (2023: 97%);
 - post-vetted announcements other than results announcements within one business day of publication in 98% of the cases in 2024 (2023: 96%); and

⁹¹ As stated on the [Exchange's website](#), (i) there is no pre-set timeframe for a listing timetable, which will depend on the applicant's response time and quality of response; and (ii) first round of comments will generally be provided within 15 business days from the receipt of the application. In 2024, the shortest time between the date of application and the date of the first comment letter was five business days and the longest time was 14 business days.

⁹² Amendments to include (i) an annex of enhanced and currently effective frequently asked questions relating to New Listing; (ii) further guidance on placing related matters; and (iii) a new listing decision with regards to change of company's name (May 2024).

Amendments to reflect the temporary modifications to MB Chapters 18B and 18C regarding (i) the minimum initial market capitalisation requirement for Specialist Technology Companies; and (ii) independent third-party investment requirements for De-SPAC Transactions as set out in the "Joint Announcement of the SFC and the Exchange in relation to Temporary Modifications to Requirements for Specialist Technology Companies and De-SPAC Transactions" dated 23 August 2024 (August 2024).

⁹³ The SFC, the AFRC and other regulatory bodies.

- (c) pre-vetted announcements⁹⁴ within the same day in 100% of the cases in 2024 (2023: 95%).

152. In 2024, the LRE department issued two guidance letters (2023: three) and no listing decision (2023: nil)⁹⁵. In May 2024, the LRE department regrouped its guidance materials (including guidance letters, listing decisions and FAQs) by topics and published a consolidated version to facilitate issuers to locate the relevant guidance efficiently.
153. The Exchange reported that, in 2024, it continued its initiative to promote self-compliance by listed issuers with the Listing Rules. This initiative was pursued primarily through publishing Listing Regulation and Enforcement Newsletters, guidance materials on annual reports and ESG disclosures as well as launching e-training modules.

SFC observations

154. As noted above, the caseload of the IPO Vetting department slightly increased by 0.4% in 2024 (see paragraph 146) while the number of compliance and monitoring actions handled by the listed issuers regulation team increased by 7.8% (see paragraph 149).
155. During the same period:
- (a) the median time taken to issue first-round comments on IPO applications remained at a similar level as 2023. The median time taken from the receipt of application to the date of Listing Committee hearing as well as the median number of total business days taken by the Exchange to issue comments were shortened (see paragraph 147). The Exchange explained that the shortened timeline was primarily attributable to: (i) IPO Vetting team's ongoing efforts to streamline the vetting process; (ii) the publication of the consolidated Guide for New Listing Applicants to facilitate applicants' navigation of the listing requirements, and (iii) the training and reminders to enhance the team's understanding of the vetting procedures.
 - (b) the proportion of results announcements post-vetted within three business days, the proportion of other announcements post-vetted within one business day and the proportion of announcements pre-vetted within the same day slightly increased in 2024 (see paragraph 151).
156. During 2024, the IPO Vetting department published two batches of updates to its consolidated Guide for New Listing Applicants (see paragraph 148). The LRE department issued two guidance letters and no listing decision (see paragraph 152).
157. Referrals from the listed issuers regulation team to the Disciplinary Team decreased by 13% from 39 cases in 2023 to 34 cases in 2024. Referrals to external regulatory bodies increased by 58% from 40 cases in 2023 to 63 cases in 2024 (see paragraph 150). The Exchange explained that the increase was due to a rise in the number of referrals to the SFC by 20 cases.

⁹⁴ These primarily comprised announcements made in relation to very substantial acquisitions, very substantial disposals, reverse takeovers and cash companies, which are required to be pre-vetted by the Exchange under the Listing Rules.

⁹⁵ Guidance Letters: "Guidance on arrangements for listed issuers to hold or deposit treasury shares in CCASS" (April 2024), "Guidance on investigations conducted by long suspended issuers" (November 2024).

Investigation and enforcement

158. In 2024, the Exchange published one Enforcement Bulletin⁹⁶ (2023: two).
159. The Exchange reported that it handled 100 investigations in 2024, down 18.7% from 123 in 2023.
160. The Exchange completed 25 disciplinary cases in 2024 (2023: 33), all of which were concluded with public sanctions imposed by the Exchange (2023: 32). In respect of these disciplinary cases, the Exchange issued in 2024:
- (a) 10 sanctions against listed issuers (2023: 19) and 85 sanctions against individuals (2023: 124). These included, amongst others, unsuitability statements⁹⁷ against 20 individuals (2023: 29) and prejudice statements⁹⁸ against 10 individuals (2023: 22);
 - (b) directions against four listed issuers (2023: six) and 52 individuals (2023: 78)⁹⁹; and
 - (c) regulatory letters in nine cases (2023: 18).
161. Below is a summary of the number of investigations handled by the Exchange and the enforcement outcomes from 2020 to 2024:

	Investigations*	No. of cases involving issuance of regulatory letters (eg, warning letters)	Cases closed by way of “no further action”	Disciplinary cases
2020	128	9	6	13
2021	164	12	10	36
2022	141	19	11	29
2023	123	18	7	33
2024	100	9	7	25

*The numbers represent cases handled by the Disciplinary Team during the year, including those carried over to the relevant period and those not concluded at the end of the year. At the end of 2024, the number of outstanding investigations was 31 (2023: 38) and the number of cases pending disposal or disciplinary action was 27 (2023: 27).

162. The average time taken to complete an investigation was 12.7 months in 2024 and 12.4 months in 2023.
163. With effect from 1 October 2024, the Listed Issuers Regulation department and Listing Enforcement department have been integrated and renamed as the Listing Regulation and Enforcement department. The listing enforcement function is now performed by LRE’s SI&D team. The Exchange informed us that the purpose of the integration was

⁹⁶ Enforcement Bulletin in relation to investigations involving loans, advances and other similar arrangements (April 2024).

⁹⁷ Director unsuitability statement pursuant to rule 2A.10(5).

⁹⁸ A statement of opinion made by the Exchange pursuant to rule 2A.10(4) that the retention of office by the director or senior management may cause prejudice to the interests of investors.

⁹⁹ These represented directions requiring listed issuers and directors to take proactive remedial actions to rectify breaches, improve internal controls and overall corporate governance. In 2024, the Exchange issued internal control review directions against three listed issuers (2023: four), appointment of compliance adviser direction against one listed issuer (2023: two) and director training directions against 52 individuals (2023: 78).

to enhance operational efficiency by establishing a unified team where the regulatory and enforcement functions are managed by the same department, to foster better understanding of issuers' compliance histories and patterns.

164. Below is a summary of the statistics regarding the enforcement cases referred to and accepted by the Disciplinary Team before and after the restructuring.

	Pre-restructuring		Post-restructuring
	2023	January to September 2024	October 2024 to June 2025
(a) Number of cases referred to the Disciplinary Team by other departments or teams within the Listing Division	39	32	29 (including 7 cases within 2024)
(b) Number of cases among (a) that have been accepted by the Disciplinary Team	26	26	28 (as of 31 December 2025, one case was held for further consideration)
(c) Rate of acceptance by the Disciplinary Team, calculated by (b)/(a)	67%	81%	97%
Average number of days between case referral and Disciplinary Team's decision to accept or reject	26.6 days	70.5 days	12.4 days

SFC observations

165. The number of listed issuers increased by 0.8% from 2023 to 2024¹⁰⁰ but the number of investigations of Listing Rule breaches handled by the Exchange decreased¹⁰¹. The number of outstanding investigations decreased from 38 in 2023 to 31 in 2024. The number of sanctions against listed issuers and individuals decreased by 47% and 31% respectively from 2023 to 2024, with directions against listed issuers and individuals also declining by 33%. Cases where regulatory letters were issued dropped by 50%.
166. The Exchange explained that the number of disciplinary actions may be influenced by various factors, such as the nature and severity of the cases. Additionally, the Disciplinary Team has been managing its caseload by conducting regular reviews on its case portfolio to identify cases with appropriate regulatory value and messaging.
167. The number of referrals received by the Disciplinary Team from other departments or teams within the Listing Division slightly decreased from 32 during the nine months prior to the restructuring to 29 during the nine months post restructuring. The case acceptance rate rose from 81% to 97%, and the time between case referral and Disciplinary Team's decision to accept or reject the case significantly shortened from 70.5 days¹⁰² to 12.4 days.

¹⁰⁰ The number of listed issuers increased from 2,609 in 2023 to 2,631 in 2024, representing an increase of 22 (or 0.8%).

¹⁰¹ See paragraphs 159 and 161.

¹⁰² The Exchange informed us that the long average time in the first nine months of 2024 resulted from a number of cases in which Disciplinary Team's decisions were deferred pending the issuers' provision of further information.



168. We understand from the Exchange that, while the standard for acceptance of referrals has remained unchanged before and after the restructuring, LRE has leveraged the synergy created by the restructuring and introduced procedural refinements to enhance operational efficiency. There is now early communication between the listed issuers monitoring team considering making a case referral and the Disciplinary Team. This provides the Disciplinary Team with an opportunity to understand the case facts and begin considering investigation strategies before a formal referral is made. This approach has expedited subsequent decisions by the Disciplinary Team to take up the referral and commence investigation.

Debts and derivatives

169. The total number of derivative warrants and CBBCs listing applications processed by the Structured Products and Fixed Income department in 2024 (31,644) increased 2.7% from 2023 (30,818).