

STATEMENT OF AUDITING STANDARDS
130
GOING CONCERN

*(Effective for audits of financial statements for periods beginning before 15 December 2004)**

<i>Contents</i>	<i>Paragraphs</i>
Introduction	1 - 2
Management's responsibility	3 - 7
Auditors' responsibility	8 - 9
Planning considerations	10 - 15
Evaluating management's assessment	16 - 21
Period beyond management's assessment	22 - 25
Additional audit procedures when events or conditions are identified	26 - 30
Audit conclusions and reporting	31 - 45
Significant delay in the approval of financial statements	46
Application to groups	47 - 48
Regulated entities	49
Compliance with International Standards on Auditing	50
Effective date	51
Appendix 1 -Examples of events or conditions which may cast significant doubt about the going concern assumption and mitigating factors	
Appendix 2 - Forming an opinion on financial statements - going concern	
Appendix 3 - Examples of auditors' reports on financial statements	

* HKSA 570 "Going Concern" is effective for audits of financial statements for periods beginning on or after 15 December 2004.

STATEMENT OF AUDITING STANDARDS

130

GOING CONCERN

*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on the auditors' responsibilities in the audit of financial statements with respect to the going concern assumption used in the preparation of the financial statements, including considering management's assessment of the entity's ability to continue as a going concern.
2. ***When planning and performing audit procedures and in evaluating the results thereof, the auditors should consider the appropriateness of management's use of the going concern assumption underlying the preparation of the financial statements. (SAS 130.1)***

Management's responsibility

3. The going concern assumption is a fundamental principle in the preparation of financial statements ¹. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.
4. Management is required to make an assessment of an entity's ability to continue as a going concern ².
5. When there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis.
6. Management's assessment of the going concern assumption involves making a judgement, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain. The following factors are relevant:

¹ Paragraph 21 of Statement No. 2.01 "Framework for the preparation and presentation of financial statements" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) states: "Financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed."

- a. in general terms, the degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future a judgement is being made about the outcome of an event or condition. For that reason, SSAP 1 specifies the period for which management is required to take into account all available information²;
 - b. any judgement about the future is based on information available at the time at which the judgement is made. Subsequent events can contradict a judgement which was reasonable at the time it was made;
 - c. the size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors all affect the judgement regarding the outcome of events or conditions.
7. Examples of events or conditions, which individually or collectively, may cast significant doubt about the going concern assumption are set out in Appendix 1. The listing is not all-inclusive nor does the existence of one or more of the items always signify that a fundamental uncertainty³ exists.

Auditors' responsibility

- 8. The auditors' responsibility is to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements, and consider whether there are fundamental uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.
- 9. The auditors cannot predict future events or conditions that may cause an entity to cease to continue as a going concern. Accordingly, the absence of any reference to going concern uncertainty in an auditors' report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Planning considerations

- 10. *In planning the audit, the auditors should consider whether there are events or conditions which may cast significant doubt on the entity's ability to continue as a going concern. (SAS 130.2)*
- 11. *The auditors should remain alert for evidence of events or conditions which may cast significant doubt on the entity's ability to continue as a going concern throughout the audit. If such events or conditions are identified, the auditors should, in addition to performing the procedures in paragraph 26, consider whether they affect the auditors' assessments of the components of audit risk. (SAS 130.3)*

² Paragraphs 24 and 25 of SSAP 1 "Presentation of financial statements" issued by the HKICPA state: *"When preparing financial statements, management should make an assessment of an enterprise's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the enterprise's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reasons why the enterprise is not considered to be a going concern."*

In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an enterprise has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate can be reached without detailed analysis. In other cases, management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate."

³ The phrase "material uncertainty" is used in SSAP 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the enterprise's ability to continue as a going concern that should be disclosed in the financial statements. In this SAS and SAS 600, the phrase "fundamental uncertainty" is used in similar circumstances.

12. The auditors consider events and conditions relating to the going concern assumption during the planning process, because this consideration allows for more timely discussions with management, review of management's plans and resolution of any identified going concern issues.
13. In some cases, management may have already made a preliminary assessment at the early stages of the audit. If so, the auditors review that assessment to determine whether management has identified events or conditions, such as those discussed in Appendix 1, and management's plans to address them.
14. If management has not yet made a preliminary assessment, the auditors discuss with management the basis for its intended use of the going concern assumption, and enquire of management whether events or conditions, such as those discussed in Appendix 1, exist. The auditors may request management to begin making its assessment, particularly when the auditors have already identified events or conditions relating to the going concern assumption.
15. The auditors consider the effect of identified events or conditions when making preliminary assessments of the components of audit risk and, therefore, their existence may affect the nature, timing and extent of the auditors' procedures.

Evaluating management's assessment

16. *The auditors should evaluate management's assessment of the entity's ability to continue as a going concern. (SAS 130.4)*
17. *The auditors should consider the same period as that used by management in making an assessment of the entity's ability to continue as a going concern. (SAS 130.5)*
18. *If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditors should ask management to extend its assessment period to twelve months from the balance sheet date. (SAS 130.6)*
19. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditors' consideration of the going concern assumption.
20. In evaluating management's assessment, the auditors consider the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action. The auditors consider whether the assessment has taken into account all relevant information of which the auditors are aware as a result of the audit procedures.
21. As noted in paragraph 5 above, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In such circumstances, the auditors' conclusion about the appropriateness of this assessment normally is also made without the need for performing detailed procedures. When events or conditions have been identified which may cast significant doubt about the entity's ability to continue as a going concern, however, the auditors perform additional audit procedures, as described in paragraph 26 below.

Period beyond management's assessment

22. *The auditors should enquire of management as to its knowledge of events or conditions beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern. (SAS 130.7)*
23. The auditors are alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern assumption in preparing the financial statements. The auditors may become aware of such known events or conditions during the planning and conduct of the audit, including subsequent events procedures.
24. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering such events or conditions, the indications of going concern issues will need to be significant before the auditors consider taking further action. The auditors may need to ask management to determine the potential significance of the event or condition on the going concern assessment.

25. The auditors do not have a responsibility to design procedures other than enquiry of management to test for indications of events or conditions which cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management which, as discussed in paragraph 18 above, would be at least twelve months from the balance sheet date.

Additional audit procedures when events or conditions are identified

26. *When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditors should:*
- a. *review management's plans for future actions based on its going concern assessment;*
 - b. *gather sufficient appropriate audit evidence to confirm or dispel whether or not a fundamental uncertainty exists through carrying out procedures considered necessary, including considering the effect of any plans of management and other mitigating factors; and*
 - c. *seek written representations from management regarding its plans for future action. (SAS 130.8)*
27. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may be identified during the planning of the audit or in the course of performing audit procedures. The process of considering events or conditions continues as the audit progresses. When the auditors believe such events or conditions may cast significant doubt on the entity's ability to continue as a going concern, certain procedures may take on added significance. The auditors enquire of management as to its plans for future action, including its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditors also consider whether any additional facts or information are available since the date on which management made its assessment. The auditors obtain sufficient appropriate audit evidence that management's plans are feasible and that the outcome of these plans will improve the situation.
28. Procedures that are relevant in this regard may include:
- a. Analysing and discussing cash flow, profit and other relevant forecasts with management.
 - b. Analysing and discussing the entity's latest available interim financial statements.
 - c. Reviewing the terms of debentures and loan agreements and determining whether any have been breached.
 - d. Reading minutes of the meetings of shareholders, the board of directors and important committees for reference to financing difficulties.
 - e. Enquiring of the entity's lawyer regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
 - f. Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
 - g. Considering the entity's plans to deal with unfilled customer orders.
 - h. Reviewing events after period end to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
29. When analysis of cash flow is a significant factor in considering the future outcome of events or conditions, the auditors consider:
- a. the reliability of the entity's system for generating such information; and
 - b. whether there is adequate support for the assumptions underlying the forecast.
30. In addition the auditors compare:
- a. the prospective financial information for recent prior periods with historical results; and
 - b. the prospective financial information for the current period with results achieved to date.

Audit conclusions and reporting

31. In relation to going concern, Appendix 2 summarises, in flow chart form, how auditors formulate their opinion as to whether the financial statements give a true and fair view.
32. Appendix 3 contains examples of auditors' reports on financial statements where going concern is an issue.

Fundamental uncertainty

33. ***Based on the audit evidence obtained, the auditors should determine if, in the auditors' judgement, a fundamental uncertainty exists related to events or conditions that alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern. (SAS 130.9)***
34. Paragraphs 52 - 65 of SAS 600 "Auditors' reports on financial statements" deal with fundamental uncertainties. The standards and guidance below are consistent with those set out in SAS 600.
35. If the use of the going concern assumption is appropriate but a fundamental uncertainty exists, the auditors consider whether the financial statements:
 - a. adequately describe the principal events or conditions that give rise to the significant doubt on the entity's ability to continue in operation and management's plans to deal with these events or conditions; and
 - b. state clearly that there is a fundamental uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.
36. ***If adequate disclosure is made in the financial statements, the auditors should express an unqualified opinion but modify the auditors' report by including an explanatory paragraph in the section of their report setting out the basis of their opinion, that highlights the existence of a fundamental uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set out in paragraph 35 above. (SAS 130.10)***
37. In assessing the adequacy of the financial statement disclosure, the auditors consider whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realising its assets and discharging its liabilities in the normal course of business.
38. In extreme cases, such as situations involving multiple uncertainties that are fundamental to the financial statements, the auditors may consider it appropriate to express a disclaimer of opinion.
39. ***If adequate disclosure is not made in the financial statements, the auditors should express a qualified (except for disagreement) or adverse opinion, as appropriate on the basis of a disagreement over the level of disclosure. The auditors' report should include specific reference to the fact that there is a fundamental uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (SAS 130.11)***

Going concern assumption inappropriate

40. ***If, in the auditors' judgement, the entity will not be able to continue as a going concern, the auditors should express an adverse opinion if the financial statements have been prepared on a going concern basis. (SAS 130.12)***
41. If, on the basis of the additional procedures carried out and the information obtained, including the effect of management's plans, the auditors' judgement is that the entity will not be able to continue as a going concern, the auditors conclude, regardless of whether or not disclosure has been made, that the going concern assumption used in the preparation of the financial statements is inappropriate and express an adverse opinion.

42. When the entity's management has concluded that the going concern assumption used in the preparation of the financial statements is not appropriate, the financial statements need to be prepared on an alternative authoritative basis. If on the basis of the additional procedures carried out and the information obtained the auditors determine the alternative basis is appropriate, the auditors can issue an unqualified opinion if there is adequate disclosure but may require the inclusion of an explanatory paragraph in the auditors' report to draw the user's attention to that basis.

Management unwilling to make or extend its assessment

43. *If management is unwilling to make or extend its assessment when requested to do so by the auditors, the auditors should consider the need to modify the auditors' report as a result of the limitation on the scope of the auditors' work. (SAS 130.13)*
44. In certain circumstances the auditors may believe that it is necessary to ask management to make or extend its assessment. If management is unwilling to do so, it is not the auditors' responsibility to rectify the lack of analysis by management, and a modified report may be appropriate because it may not be possible for the auditors to obtain sufficient appropriate evidence regarding the use of the going concern assumption in the preparation of the financial statements.
45. In some circumstances, the lack of analysis by management may not preclude the auditors from being satisfied about the entity's ability to continue as a going concern. For example, the auditors' other procedures may be sufficient to assess the appropriateness of management's use of the going concern assumption in the preparation of the financial statements because the entity has a history of profitable operations and a ready access to financial resources. In other circumstances, however, the auditors may not be able to confirm or dispel, in the absence of management's further assessment, whether or not events or conditions exist which indicate there may be a significant doubt on the entity's ability to continue as a going concern, or the existence of plans management has put in place to address them or other mitigating factors. In these circumstances, the auditors modify the auditors' report.

Significant delay in the approval of financial statements

46. When there is significant delay in the approval of the financial statements by management after the balance sheet date, the auditors consider the reasons for the delay. When the delay could be related to events or conditions relating to the going concern assessment, the auditors consider the need to perform additional audit procedures, as described in paragraph 26 above, as well as the effect on the auditors' conclusion regarding the existence of a fundamental uncertainty, as described in paragraph 33 above.

Application to groups

47. The principles and procedures set out in this SAS apply also to the audit of consolidated financial statements.
48. It may be appropriate, on the grounds of materiality, for the group financial statements to be prepared on the going concern basis even though it is inappropriate for the individual financial statements of one or more members of the group to be prepared on the going concern basis.

Regulated entities

49. When auditors of regulated entities consider that they might need to modify the auditors' report, they may have a duty to inform the appropriate regulator at an early stage in the audit. In such cases the regulator might, if it has not already done so, specify corrective action to be taken by the regulated entity. At the time at which they formulate their report, the auditors take account of matters such as:
- a. any views expressed by the regulator;
 - b. any legal advice obtained by management; and
 - c. the actual and planned corrective action.

Compliance with International Standards on Auditing

50. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 570 (Revised) "Going Concern" issued in June 1999.

Effective date

51. This SAS is effective for audits of financial statements for period beginning before 15 December 2004.

APPENDIX 1

EXAMPLES OF EVENTS OR CONDITIONS WHICH MAY CAST SIGNIFICANT DOUBT ABOUT THE GOING CONCERN ASSUMPTION AND MITIGATING FACTORS

1. Examples of events or conditions, which individually or collectively, may cast significant doubt about the going concern assumption are set out below. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a fundamental uncertainty exists.

Financial

- a. Net liability or net current liability position.
- b. Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- c. Indications of withdrawal of financial support by debtors and other creditors.
- d. Negative operating cash flows indicated by historical or prospective financial statements.
- e. Adverse key financial ratios.
- f. Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- g. Arrears or discontinuance of dividends.
- h. Inability to pay creditors on due dates.
- i. Inability to comply with the terms of loan agreements.
- j. Change from credit to cash-on-delivery transactions with suppliers.
- k. Inability to obtain financing for essential new product development or other essential investments.

Operating

- a. Loss of key management without replacement.
- b. Loss of a major market, franchise, licence, or principal supplier.
- c. Labour difficulties or shortages of important supplies.

Other

- a. Non-compliance with capital or other statutory requirements.
- b. Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied.
- c. Changes in legislation or government policy expected to adversely affect the entity.

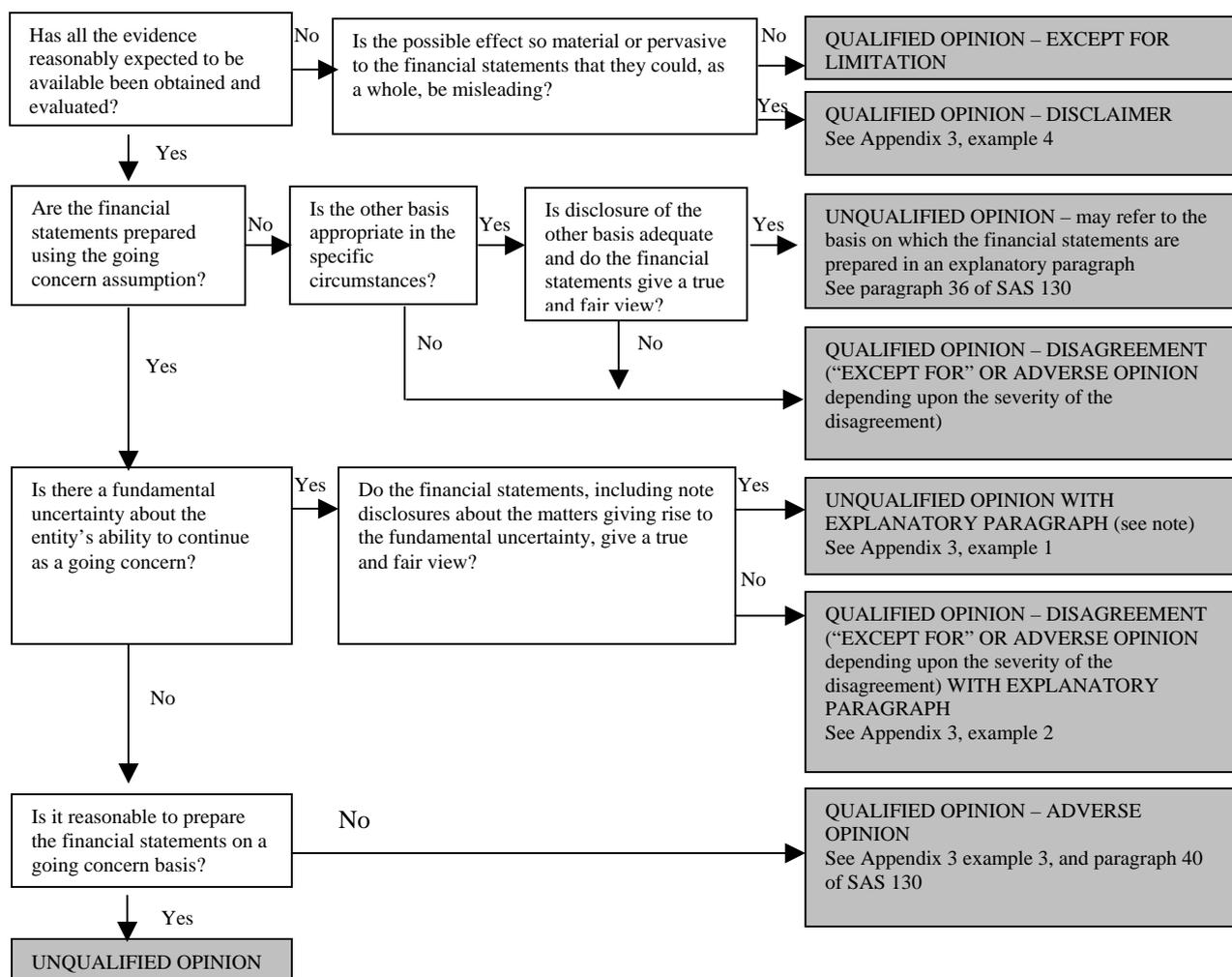
2. The significance of the above events or conditions often can be mitigated by other factors. For example:
 - a. The effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments, or obtaining additional capital.
 - b. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

APPENDIX 2

FORMING AN OPINION ON
FINANCIAL STATEMENTS - GOING CONCERN

This Appendix sets out in the form of a flow chart the steps the auditors might take to form an opinion, in relation to the going concern assumption, on whether the financial statements give a true and fair view of the entity's state of affairs and results.

The flow chart is intended to assist readers in understanding this SAS and does not form part of this SAS.



Note: When the auditors decide to add an explanatory paragraph describing a fundamental uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this will normally adequately serve readers of the financial statements. However in extreme cases, such as situations involving multiple uncertainties that are fundamental to the financial statements, the auditors may consider it appropriate to express a disclaimer of opinion (paragraph 38 of SAS 130).

APPENDIX 3

EXAMPLES OF AUDITORS' REPORTS ON FINANCIAL STATEMENTS

General guidance on the format and wording of auditors' reports are set out in SAS 600 "Auditors' reports on financial statements".

The examples below are illustrative only. Auditors' reports in practice should suit the circumstances. The extent of disclosures in the financial statements and the auditors' report will depend on the circumstances prevailing in each particular case.

Example 1: Modified report - Unqualified opinion with an explanatory paragraph describing a fundamental uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern

Example 2: Qualified opinion - except for opinion (disagreement about accounting treatment and level of disclosure)

Example 3: Qualified opinion - adverse opinion (disagreement - going concern assumption inappropriate)

Example 4: Qualified opinion - disclaimer (limitation of scope)

EXAMPLE 1: MODIFIED REPORT - Unqualified opinion with an explanatory paragraph describing a fundamental uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages ... to ... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of negotiations for additional finance being made available to replace an existing loan of \$X which is repayable on 30 June 2XX1. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain such funding. Details of the circumstances relating to this fundamental uncertainty are described in note [] to the financial statements. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2XX0 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

**EXAMPLE 2: QUALIFIED OPINION - EXCEPT FOR OPINION
(Disagreement about accounting treatment and level of disclosure)**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages ... to ... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the directors' efforts to renegotiate loans and raise further capital. In view of the significance of the fact that the preparation of the financial statements on the going concern basis assumes the successful conclusion of both these matters, we consider that these disclosures should be brought to your attention. We consider that the fundamental uncertainty has been adequately accounted for in the financial statements and our opinion is not qualified in this respect, but certain aspects of the disclosures made in the financial statements give rise to a qualification as described below.

Qualified opinion arising from disagreement about accounting treatment and level of disclosure

In our opinion the financial statements should disclose the fact that the company has not complied with covenants relating to certain of its borrowings included in the financial statements. Under the terms of these covenants, the publication of these financial statements gives rise to defaults relating to certain of the company's borrowings as a consequence of which the related borrowings become repayable on demand. These related borrowings should have been reclassified as current liabilities, which would have reduced the figures recorded in the financial statements for net current assets and long term liabilities by \$_____.

Except for the absence of the disclosures, and the failure to reclassify the relevant borrowings, referred to in the paragraph above, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 20.. and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

**EXAMPLE 3: QUALIFIED OPINION - ADVERSE OPINION
(Disagreement - going concern assumption inappropriate)**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages ... to ... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion: Adverse opinion

As more fully explained in note [] to the financial statements, there are a number of matters that may affect the ability of the company to continue as a going concern. In that note, the directors state their opinion that the going concern basis used in the preparation of the financial statements is appropriate. In our opinion, however, there is no realistic alternative available to the management of the company but to cease trading and therefore we believe the going concern basis should not be used. Had the going concern basis not been used, adjustments would be needed to the classification of recorded asset amounts, with these assets being written down to their recoverable amounts, and to the amounts and classification of liabilities, to reflect the fact that the company may be required to realise its assets and extinguish its liabilities other than in the normal course of business, additional liabilities may crystallise and the resulting amounts may differ materially from those stated in the financial statements.

In view of the significance of the matters referred to above, in our opinion the financial statements do not give a true and fair view of the state of the company's affairs as at 31 December 20.. and of its loss for the year then ended. In our opinion, the financial statements give a true and fair view of the company's cash flows for the year ended 31 December 20.. and in all other respects, have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

EXAMPLE 4: QUALIFIED OPINION - DISCLAIMER
(Limitation of scope)

AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages ... to ... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because, as explained in note [] to the financial statements, the financial statements have been prepared on the going concern basis, the validity of which depends upon the directors' plans to expand the trade of the company and enter new export markets, and we have not been permitted access to all the documents available relating to the trading prospects of the company for the foreseeable future. Accordingly, we were unable to determine the reasonableness of the directors' assumptions that the company is a going concern and able to pay its liabilities as they fall due for the foreseeable future. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to these matters, which may have a consequential effect on the company's loss for the year and net liabilities at 31 December 20...

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion: Disclaimer on view given by financial statements

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's affairs as at 31 December 20.. or of its loss and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to the matters referred to above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date