

Sept/Oct 25 Legal and Regulatory Update

Top stories

AFRC on 2025 year-end audits

AFRC published its **Audit Focus for 2025 year-end audits**, highlighting the need to navigate the **dynamic risk environment of 2025**. The **challenging economic conditions**, coupled with **new and increasingly complex business model**, present significant challenges for both companies and their auditors. ([Report](#))

Our focus is the impact on companies and in this light, AFRC's guidance on **audit implications** of the current macroeconomic and market landscape (*Section 1, P.1*). *(Please also refer to our [Oct 24 update](#) on Audit Focus 2024, with **useful AFRC guidance for audit committee and management**).*

Ongoing geopolitical and economic uncertainty continue to affect businesses, with fluctuating **interest rates** and **shifting consumer sentiment** exacerbating challenges around **profitability, liquidity, and “going concern” assessment**.

The extended financial pressure on companies also increases the **risk of management bias and fraud** in financial reporting.

Rapid technology advancements, such as the growing adoption of **AI**, are fundamentally **transforming business processes** and introducing **new risks** to operational reliability, data security, and cybersecurity. These also increases the **risk of material misstatements**.

What you need to watch out for

Specific audit implications

- **Geo-political uncertainty**
 - Inventory valuation
 - Revenue recognition
 - Onerous contracts
 - Subsequent events
 - Impairment of non-current assets
 - Going concern assessment

- **Persistent headwinds on retail and real estate sectors**

- Property valuations
- Credit losses
- Inventory valuation
- Impairment of non-current assets
- Going concern assessment

Also in this issue

Regulators

(i) HKEX censures Orient Securities International Holdings Limited, imposes a Director unsuitability statement on named former executive director and independent directors (INEDs); imposes a Prejudice to investors' interest statement to named former INED. The relevant INEDs are former members of its audit committee ([Announcement](#); [Statement of disciplinary action](#))

Background: this is a GEM board case on serious failures of the board to appropriately manage and supervise the company's money lending business. Such failure to act and safeguard company assets led to significant impairment losses. The defendants settled the case with HKEX.

Our focus is on general lessons for directors and audit committee (AC) members, beyond the context of a money lender business.

Between 2015-22, the company granted and extended loans (\$378 million) to individual clients. It only conducted high-level due diligence before granting the loans and failed to ensure that loan collateral (*properties in the PRC*) was properly registered for enforcement in case of default.

Auditor had alerted AC about the non-registration of the collateral as early as 2018 and advised them to communicate with the company's management. It also **reminded** AC on increasing defaults. However, AC members **did not take any initiative** to respond to such warnings and/or facilitate communication between the auditor and the board.

What you should watch out for

HKEX key message

- The board collectively and individually bears responsibility for the management and operations of an issuer. This requires **each director to take an active interest** in its affairs, obtain a general understanding of its business and follow up anything untoward that comes to attention
- Where **red flags** have been identified, it is the duty of all directors to **make tangible efforts to investigate**, and **follow up** on whether, and how, the red flags have been addressed

Findings on AC

- AC was expected to assist the board in fulfilling its responsibilities through an independent review and oversight of the loans, yet its members did not discharge this obligation

(ii) SFC's publication ([Enforcement Reporter](#)) highlighted fighting scams in the digital age.

Its focus is principally on scams involving individuals and retail investors, hence outside our scope.

Overview: in 2024, HK Police recorded an alarming fourfold increase in deception cases in 5 years. Scammers exploit instant messaging, social media, phone calls, and SMS to target HK residents. Deepfake and AI technologies are increasingly used to impersonate government officials and public figures convincingly. Emerging trends include transactions and fund movements facilitated by digital platforms and decentralised ledger technology, cross border scams. It is therefore critical for regulators to collaborate with technology firms.

SFC highlighted various tools (*e.g. its "Social Media Monitoring System", "Alert Lists", education efforts*) and enforcement cases against unlawful Finfluencers. The "Anti-scam consumer protection charter 3.0" (*collaboration with HK Monetary Authority, Insurance Authority, MFP Authority, technology/communications companies*) was referenced.

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