



Overview of the Market for Listed Entity Audits in Hong Kong

11 March 2021

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The Financial Reporting Council is an independent body established on 1 December 2006 under the Financial Reporting Council Ordinance. It is entrusted with the statutory duty to regulate auditors of listed entities through a system of registration and recognition, and through inspection, investigation and disciplinary action.

The mission of the FRC is to uphold the quality of financial reporting of listed entities in Hong Kong, so as to enhance protection for investors and deepen investor confidence in corporate reporting.

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Foreword from the Chief Executive Officer

I am pleased to share with the public this report by our Oversight, Policy and Governance (“OPG”) function, which provides an Overview of the Market for Listed Entity Audits in Hong Kong (the “Market”).



Purpose of this report

As part of the research on policy issues relating to the quality of financial reporting and auditing of listed entities conducted by our OPG function, the purpose of this report is to inform our regulatory risk assessments and policy development as the independent auditor regulator for Hong Kong. In turn, such assessments and policies provide a basis for us to exercise our regulatory functions and to provide directional observations to listed entity auditors and related guidance to key stakeholders concerned with listed entity governance, including their audit committees.

The information in this report provides high level insights into how competition operates in the Market, including Market segmentation, the balance of bargaining power, the pricing of audit services and the levels of switching of auditors by listed entities. It includes an analysis of the size and competitive structure of the Market, the relative significance of non-audit to audit services provided to listed entities by their auditors (which may also affect public perceptions about auditor independence), and how these factors have developed from 2010 to 2019.

The research findings are intended to enable us to begin to consider whether competition in the Market is functioning sufficiently effectively to serve the interests of the investing public and the wider public interest, and to suggest avenues for further policy research. Effective competition can foster investment and innovation and enhance effectiveness and efficiency in audit services, enable a sufficient choice of auditors for listed entities and underpin the performance of high quality audits at a sustainable price. Insufficiently effective competition may harm these outcomes and public confidence in the quality of audits in the Market.

Our findings and insights

Market size and volume segmentation

The Market has grown consistently, at a compound annual rate between 5.9% and 7.1%, over the period, whether measured by audit fees or the number or market capitalization of listed entities, and is characterised by significant buyer concentration by size. Whether measured by market capitalization or audit fees, in 2019 the largest 5% (116) and 20% (466) of listed entities accounted respectively for 77.4% and 49.4%, and 93.7% and 71.5%, of the Market.

Insights: With respect to competition, such growth poses both opportunities to grow market share and challenges to make the necessary investment in people and IT to maintain and grow market share.

Buyer concentration at the top end of the Market may indicate greater bargaining power for such buyers, which could mitigate the bargaining power of PIE auditors with dominant market shares at that end of the Market.

Market concentration

Since 1 October 2019, only auditors registered as PIE auditors are able to perform audits of Hong Kong listed entities. In 2019, 41 local (Hong Kong) PIE auditors performed the audits of 95.2% of the 2,328 listed entities. The Market is characterised by a high level of concentration.

We categorise PIE auditors according to the number of listed entity audits they perform. In 2019, those with more than 100 audit appointments (4 at the start of the period, rising to 6 by the end) collectively accounted for 71.1% (by number), 90.1% (by market capitalization) and 80.2% (by audit fees) of the Market. In particular, the largest one accounted for 18.3% (by number), 50.9% (by market capitalization) and 32.0% (by audit fees) of the Market. Referred to as Category A audit firms, they also captured 82.1% of the audits of the entities newly listed in the period.

In 2019, 4 Category A PIE auditors served all but 2 of the 105 listed entities with a market capitalisation in excess of HK\$50 billion audited by local auditors. The remainder of the market for listed entities audited by local PIE auditors also shows significant concentration, with 73.6% audited by Category A audit firms and the remaining 26.4% by 35 other local PIE auditors.

Insights: Market shares are a key indicator of competition. High concentration in market shares, combined with high buyer concentration, indicates a possible separate Market segment, with different competition features, at the top of the Market. Market concentration appears to be increasing, driven by even higher levels of concentration for newly listed entities.

Market segmentation

The listed entities not audited by local PIE auditors, were either incorporated in the Mainland and had financial statements prepared under Chinese accounting standards (Mainland CAS listed entities), or were incorporated overseas and had a 'centre of gravity' outside Greater China (Overseas listed entities). In 2019, they were served by the 11 Mainland auditors and 20 overseas auditors that were recognised as PIE auditors, as local PIE auditors are not able to perform these audits. Both of these groups of auditors include international network firms of some local PIE auditors.

Insights: Audits of Mainland CAS listed entities and Overseas listed entities form a separate Market segment(s), with different competition features, as local auditors are not able to perform them. The remainder of the Market, and each of the two possible segments identified above, can be characterised as an oligopoly, because it is highly dependent on a small number of auditors.

Mainland CAS listed entities represent only 3% of all listed entities in 2019 and the 11 Mainland auditors recognised as PIE auditors are only allowed to audit these entities. Many other Mainland incorporated listed entities are audited by local auditors. In addition to the 11 Mainland auditors recognised as PIE auditors, there are many other Mainland auditors who serve the Mainland audit market.

Geographical segmentation of Hong Kong listed entities published by the HKEX highlights the significance of listed entities incorporated or controlled in the Mainland (“Mainland enterprises”). At the end of 2019 and 2020, Mainland enterprises accounted for 73.2% and 80.1% of the total market capitalization. Those that are not Mainland CAS listed entities are audited by local PIE auditors and the performance of these audits generally involves co-operation between the local PIE auditor and its Mainland network firm or a non-network Mainland auditor. The relationships that support such co-operation and the related Mainland regulatory requirements for the performance of audit work are significant competition features of the Market.

Market entrants and leavers

The number of local PIE auditors reduced by 9, with 19 entrants and 28 leavers, over the period. The number of Mainland PIE auditors is fixed under a mutual recognition arrangement but the number of overseas auditors increased by 15, with 28 entrants and 13 leavers, over the period.

Insights: There has been some consolidation of local PIE auditors over the period, with all the entrants and leavers being amongst audit firms with less than 10 listed entity audits. The changes in overseas auditors reflect factors including the growth in overseas listings (entrants) and some post-listing changes of auditor from a local PIE auditor to an overseas auditor in the same network. As indicated by registrations of PIE auditors, there are currently 25 local PIE auditors without any audits of listed entities, which may also compete for listed entity audits, most likely at the lower end of the Market by size of listed entities.

Switching rate

The switching rate for the Market (the percentage by number of listed entities that changed auditor) in each year over the period was between 6.6% and 9.6%.

Insights: Switching rates are generally considered to be a key indicator of competition. There was no clear trend in the switching rates during the period.

Audit fees

Overall, average and median audit fees increased respectively at compound annual rates of 0.9% and 1.8%. Between 28.2% and 54.4% of listed entities decreased or did not increase audit fees in each year during the period. When audit fees were decreased, the individual decreases averaged 12.3% and, when they were increased, the individual increases averaged 15.2%. However, between 52.6% and 75.4% of listed entities paid lower or the same audit fees after a change in auditor. When audit fees were decreased after a change in auditor, the individual decreases averaged 24.9% and, when they were increased, the individual increases averaged 37.4%.

Insights: Audit fees are also generally considered to be a key indicator of competition. The findings show relatively low overall rates of increase in audit fees but there was significant variation in year on year changes in individual audit fees.

One striking feature of the Market was the impact on changes in audit fees when there was a change in auditor. Audit fees were decreased or stayed the same in a higher proportion of cases and the changes in individual fees when changes were made were more than twice as high in percentage terms.

The findings raise questions about the factors that gave rise to the competition features of the Market relating to audit fees, as identified in this report. Price and quality should not necessarily be perfectly correlated in a well-functioning market, but certain factors, such as a high degree of buyer or seller dominance, may result in a misalignment of the proper balance between price and quality. Of significant relevance to the FRC is whether audit quality has been maintained in these Market conditions.

Non-audit services

The ratio of non-audit fees to audit fees paid by listed entities during the period was between 24.6% and 29.0%.

Insights: The findings indicate that the ratio of non-audit to audit services provided by listed entity auditors to the listed entities they audit is broadly comparable with or lower than in other international capital markets. Although listed entities may value the provision of non-audit services by their auditor, based on their expertise, trustworthiness and reputation, considered as a competition feature of the Market the provision of non-audit services by the auditor may create barriers to switching auditor. It may also pose threats to the objectivity of an auditor. The nature and significance of such threats needs to be considered by reference to not only the ratio of non-audit to audit services fees but also the nature of the non-audit services provided.

Implications for our future work

By its nature, as a market for audit services mandated by law or regulation, the Market has special competition features, which may create barriers to effective competition:

- Each listed entity is the buyer of a single service (an independent audit of the quality of its own financial reporting);
- The audit service must be tailored to the size and nature of the entity, so there can be no standard pricing or simple pricing benchmarks; and
- The ultimate beneficiaries of the service are the investing and wider public rather than the buyer itself, so there is no direct input into buying decisions by the ultimate beneficiaries.

This may create potential challenges for effective competition in the Market. These challenges could be mitigated in the Market itself by the audit committees which play an oversight role over the audit relationship under the Listing Rules. A critical factor in maintaining proper functioning of the Market is therefore the effectiveness of such oversight. If that oversight is weak or fails, buying decisions in relation to audits may be less focused on quality and more focused on price than is in the best interests of the investing public.

This is an area where our OPG function is already conducting further research and will be publishing guidance later this year.

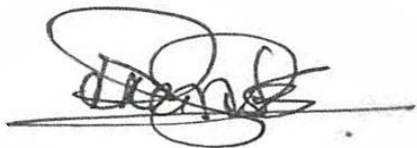
Key areas for possible further research by the FRC, to better understand the competition features of the Market identified and whether they pose threats to audit quality include:

- The investments being made by PIE auditors in people and IT to improve their efficiency and effectiveness in delivering high quality audits;

- Factors giving rise to the virtual exclusion of all but four local PIE auditors at the top end of the Market, whether there are different competition features at play that create barriers to entry and whether the balance of bargaining power between buyers and the audit firms provides incentives for maintaining the required level of audit quality;
- Factors giving rise to the higher concentration observed for newly listed entity audits, especially through understanding the factors that such entities take into account in making their buying decisions;
- Factors affecting competition in relation to the audits of Mainland CAS listed entities and the impact of mandatory tendering on switching rates in that segment;
- Factors affecting competition in relation to the audits of Mainland Enterprises, given the significance of those entities to the Market, and how competition features such as the need for co-operation between the local PIE auditor and a Mainland auditor(s) to perform such audits, and the regulatory requirements relating to audit work performed in the Mainland affect competition and the implications if any for audit quality;
- Factors affecting the observed consolidation of local PIE auditors over the period and any barriers to entry faced by the significant number of registered local PIE auditors that audit none or only one listed entity;
- Factors affecting switching rates, including comparative data for other international markets, obtaining Market data on auditor tenure and listed entity tendering practices, including factors taken into account by listed entities in determining whether to tender and, when they do, the choice of auditors they consider available and the factors they take into account in determining which auditors to invite to tender;
- The factors driving relatively static overall pricing of audits in the Market and the observed changes in pricing when there are changes in auditor, and whether there are related risks to audit quality;
- The factors giving rise to decreases or increases in audit fees, following a change of auditors, and whether, when there has been a significant reduction in audit fees, the new auditor has deployed the necessary resources to carry out a high quality audit;
- Whether the results of audit inspections or identified financial reporting issues show any correlation with competition features of the Market, for example significant reductions in audit fees with or without a change in auditor;
- The nature of non-audit services, and whether there are implications for competition, auditor independence and audit quality of such services, performed by auditors for the listed entities they audit; and
- The nature and extent of non-audit services provided by listed entity auditors to listed entities that they do not audit, whether these create any barriers to switching in the Market and whether there are any implications for auditor investment in the efficiency and effectiveness of listed entity audits.

We will prioritize the above key areas for possible further research as we develop our strategy and work plans for the coming years. Some of this research will be possible through obtaining information from listed entity auditors, listed entities or other stakeholders. In other cases, we may need to focus the work of our inspection function (for example, through increasing our risk assessment when audit fees decrease significantly after a change in auditor) or to correlate information already obtained with the results of the work of our inspection or investigation functions (for example, our audit quality findings).

Oligopolies are relatively easy to identify but the implications for competition and choice and audit quality are more difficult to determine. We have not drawn any conclusions about the effectiveness of competition in the oligopolistic conditions observed in the Market. Our policy considerations will be led by the results of our future research and analysis and the findings in this report.

A handwritten signature in black ink, appearing to read 'Marek Grabowski', with a horizontal line extending from the end of the signature.

Marek Grabowski
Chief Executive Officer



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1. Introduction

This is the first edition of the FRC's report "Overview of the Market for Listed Entity Audits in Hong Kong" (**the Report**). We intend to publish further editions annually.

This Report presents an analysis of the market for listed entity audits in Hong Kong (**the Market**) from 2010 to 2019. Specifically, this Report provides information and insights to assist in answering the following questions:

- What is the size of the Market in terms of the following measurement proxies:
 - The total number of listed entity audits;
 - The total audit fees paid by listed entities; and
 - The total market capitalization of listed entities?
- How many audit firms perform audits of listed entities in the Market?
- What are the market shares of individual audit firms and the degree of concentration in the Market and how can the market structure be characterized?
- What are the trends in annual audit fees paid by listed entities in the Market?
- How many listed entities change their auditors each year?
- What is the trend in annual audit fees after a change in auditor?
- What is the ratio of the non-audit fees to the audit fees paid by listed entities to their auditors?

The primary purpose in preparing this analysis is to provide the FRC, as the independent auditor regulator, with information to assist the FRC in identifying factors that may indicate risks to audit quality. Such factors may suggest avenues for further study with an aim to set policies and provide directional observations to listed entity auditors or guidance to other key market stakeholders, including audit committee members, to promote and facilitate the performance of high quality audits in carrying out their roles.

2. Key Market Trends 2010 to 2019

Market size

The Market increased by 82.8% by total audit fees, 67.9% by number of listed entity audits, and 85.2% by total market capitalization of listed entities audited from 2010 to 2019 (see section 3).

Total audit fees	Number of listed entity audits	Total market capitalization of listed entities audited
2010: HK\$6,666 million	2010: 1,386	2010: HK\$20,191 billion
2019: HK\$12,187 million	2019: 2,328	2019: HK\$37,384 billion
Compound annual growth rate: 6.9%	Compound annual growth rate: 5.9%	Compound annual growth rate: 7.1%

Number of audit firms[#]

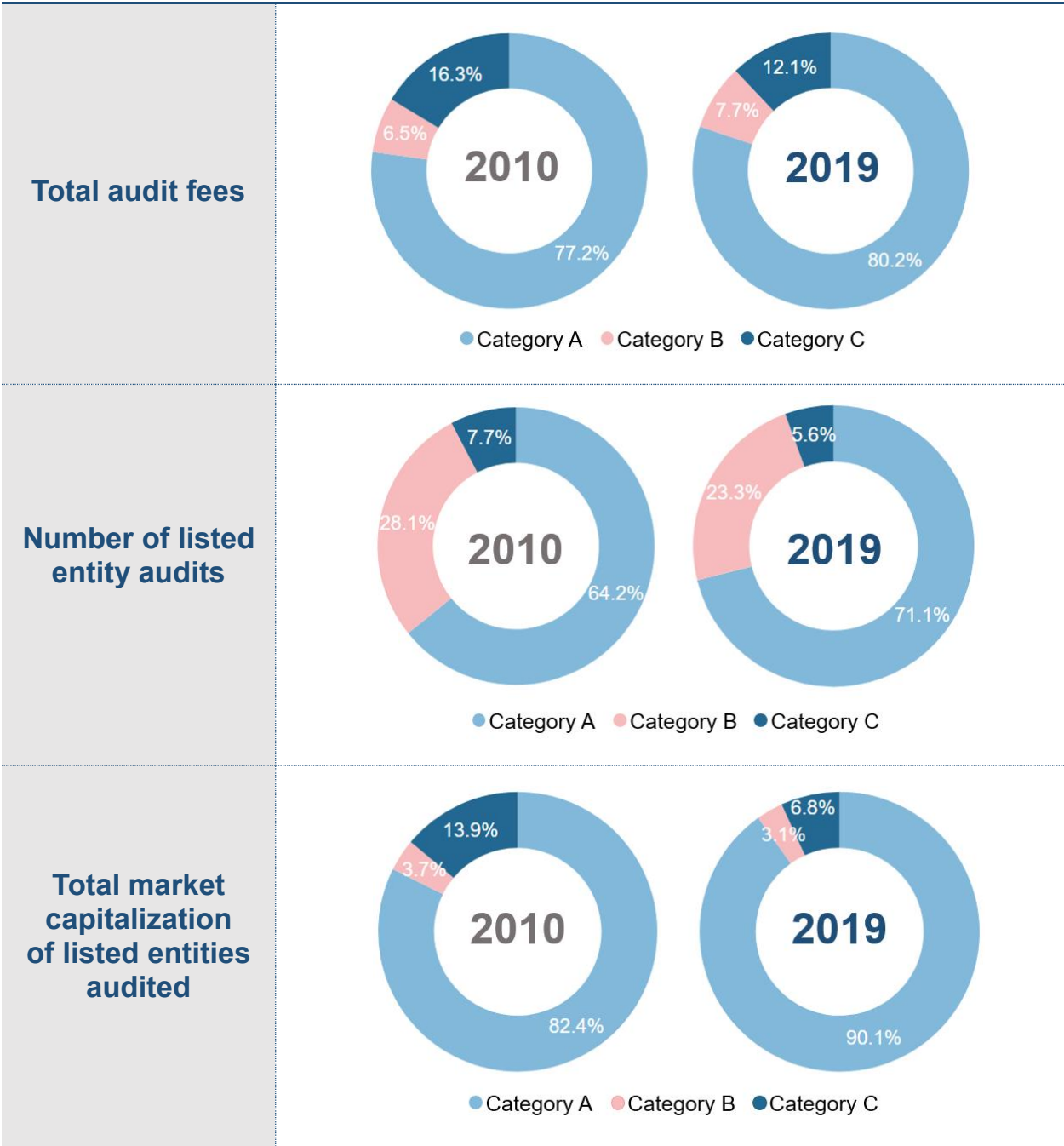
- 72 audit firms performed listed entity audits in the Market in 2019, compared with 66 in 2010 (compound annual growth rate of 1.0%).
- 47 audit firms were new Market entrants and 41 firms exited. All were in Category C.
- 11 audit firms changed categories, with 2 firms from Categories B to A, 3 firms from Categories B to C, and 10 from Categories C to B.

[#]Audit firms are categorized according to the number of listed entities that they perform audits in the year.

Audit firm category	Number of listed entities that audit firms perform audits
Category A	100 or more
Category B	10 to 99
Category C	At least one and less than 10

Market concentration

In 2019 (2010), Category A audit firms accounted for a combined share of 80.2% (77.2%) by total audit fees, 71.1% (64.2%) by number of listed entity audits, and 90.1% (82.4%) by total market capitalization of listed entities audited in 2019 (see section 4).



Audit fee trends throughout the period

- Total annual audit fees increased by 82.8% compared with an increase of 67.9% in the number of listed entity audits (see section 5).
- Average annual audit fees and median annual audit fees varied in a narrow band between HK\$4.8 million and HK\$5.4 million, and between HK\$1.7 million and HK\$2.1 million, respectively (see section 5).
- The difference between the average and median indicates significant skewing of fees. For approximately 80% of the number of listed entities, their audit fees were below the average in each year (see section 5).

Total, average and median annual audit fees (in HK\$ million)

Audit fees	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	6,666	7,660	8,263	8,666	9,356	9,868	10,212	10,718	11,840	12,187
Average	4.8	5.2	5.4	5.3	5.4	5.4	5.3	5.2	5.3	5.2
Median	1.7	1.9	1.9	2.0	2.1	2.1	2.1	2.0	2.1	2.0

- The audit fees for between 28.2% and 54.4% of the number of listed entities decreased or did not increase for each year (see section 5).
- Increases or decreases in audit fees for individual listed entities varied between less than 10% and more than 50%. For listed entities that had an increase in audit fees, the increases averaged 15.2%, and for those that had a decrease, the decreases averaged 12.3% (see section 5).

Percentage of listed entities with an increase, decrease or no change in audit fees

Changes in audit fees	2011	2012	2013	2014	2015	2016	2017	2018	2019
Increase	68.7%	63.3%	65.0%	59.7%	57.2%	53.1%	57.6%	71.8%	45.6%
Decrease or no change	31.3%	36.7%	35.0%	40.3%	42.8%	46.9%	42.4%	28.2%	54.4%
Decrease	23.1%	25.7%	24.6%	31.4%	35.1%	37.7%	33.9%	20.0%	44.9%
No change	8.2%	11.0%	10.4%	8.9%	7.7%	9.2%	8.5%	8.2%	9.5%

Changes in auditors

- In each year, between 6.6% and 9.6% of the number of listed entities changed their auditors (see section 5).

Number of listed entities that changed their auditors

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of listed entities	107	129	127	114	121	166	146	192	224
Percentage of total number of listed entities	7.3%	8.5%	7.8%	6.6%	6.6%	8.6%	7.1%	8.6%	9.6%

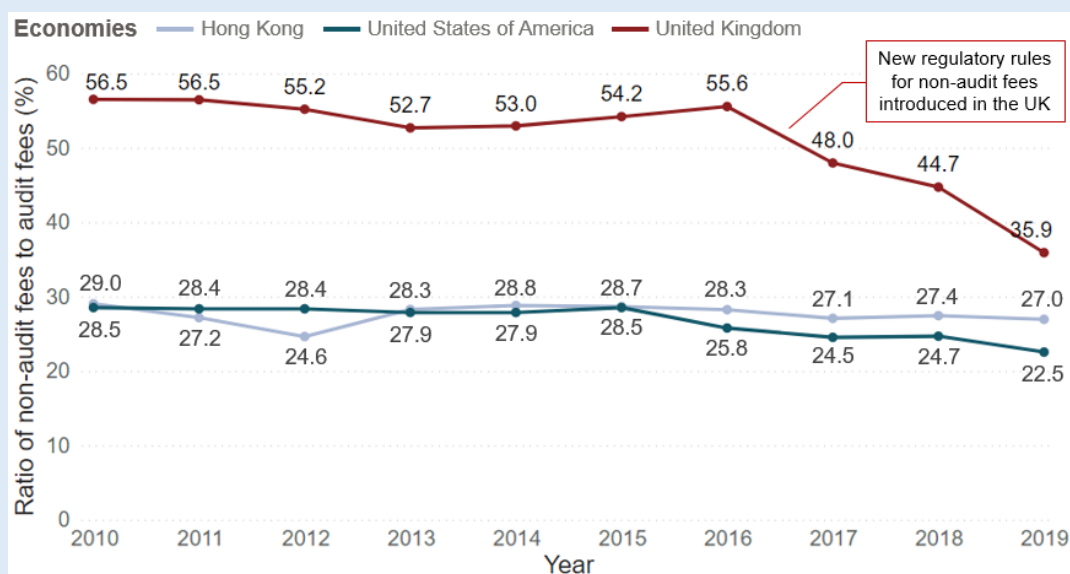
- Between 52.6% and 75.4% of the number of listed entities paid lower or the same audit fees after a change in auditor (see section 5).
- In those cases, when there was a decrease in audit fees after a change in auditor, the average decrease was 24.9% and when there was an increase, the average increase was 37.4% (see section 5).

Percentage of listed entities with an increase, decrease or no change in audit fees after a change in auditor

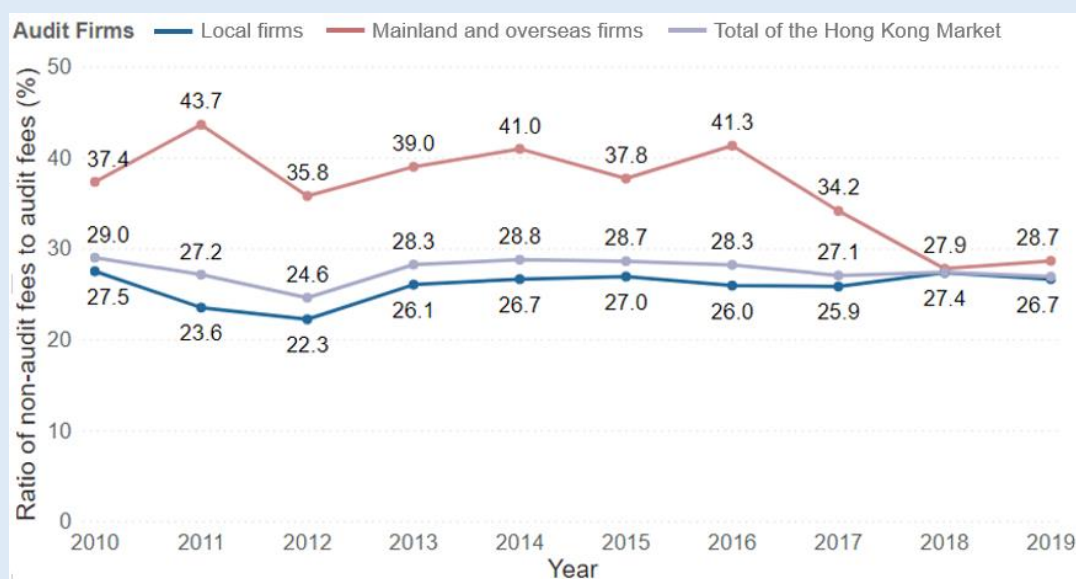
Changes in audit fees	2011	2012	2013	2014	2015	2016	2017	2018	2019
Increase	43.0%	41.9%	46.5%	47.4%	32.2%	37.3%	37.7%	34.4%	24.6%
Decrease or no change	57.0%	58.1%	53.5%	52.6%	67.8%	62.7%	62.3%	65.6%	75.4%
Decrease	54.2%	55.8%	49.6%	50.0%	63.7%	59.1%	59.6%	62.0%	72.3%
No change	2.8%	2.3%	3.9%	2.6%	4.1%	3.6%	2.7%	3.6%	3.1%

Level of non-audit fees compared to audit fees

The ratio of non-audit fees to audit fees across the Market was between 24.6% and 29.0% over the period, which was similar to the US market* and lower than the UK market* (see section 5).



- Compared with local audit firms, Mainland and overseas audit firms had a relatively higher ratio of non-audit fees to audit fees (see section 5).



* The UK and US market information are based on “Key Facts and Trends in the Accountancy Profession” published by the UK FRC from 2010 to 2019, and the article of “Eighteen Year Review of Audit Fee & Non-Audit Fee Trends” published by Audit Analytics in November 2020.

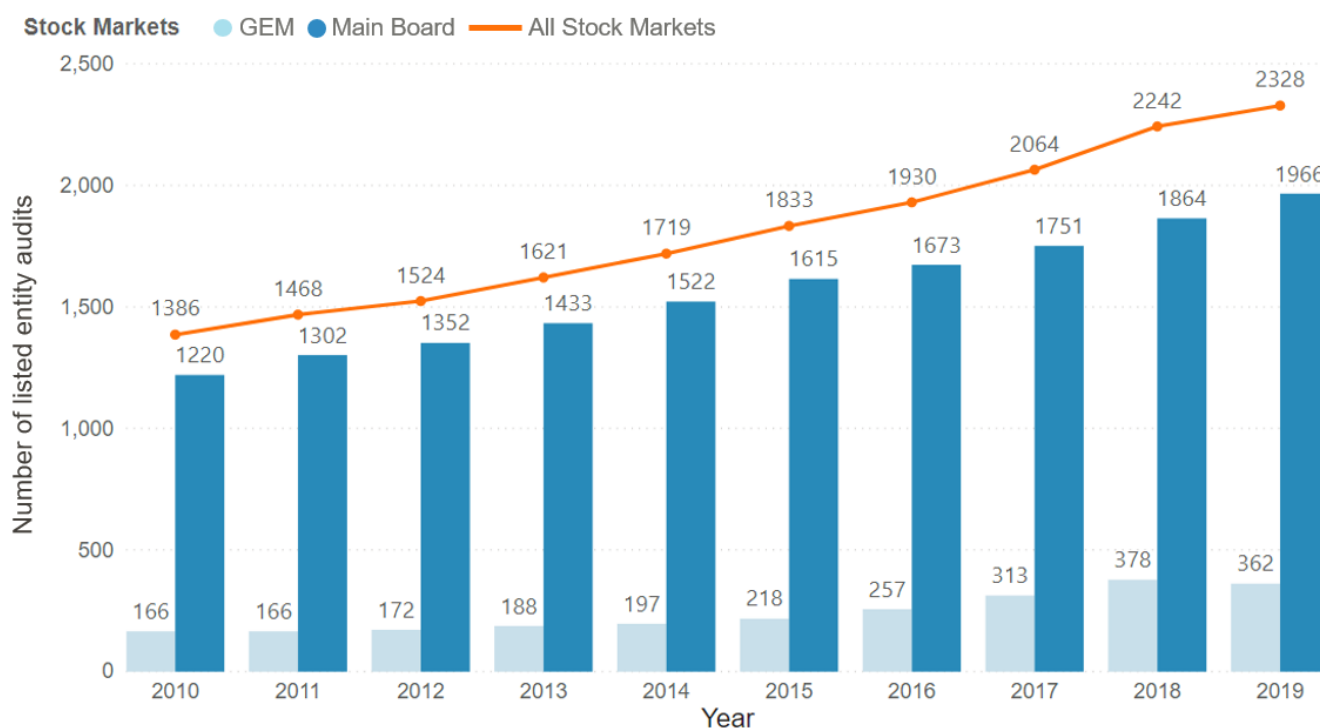


3. Market Size

Number of listed entity audits

The total number of listed entity audits increased from 1,386 in 2010 to 2,328 in 2019, representing a compound annual growth rate of 5.9% (Figure 3.1).

Figure 3.1 Number of listed entity audits (by stock market)



Number of listed entity audits

Changes in the number of listed entity audits

There were 1,140 new audits during the period, for 821 entities newly listed on the Main Board and 319 on GEM (Figure 3.2), with 180 listed entities leaving the Market (including entities that were delisted or under suspension).

Figure 3.2 Changes in number of listed entity audits

Number of listed entity audits	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total for the period
At the beginning of the period	1,386	1,468	1,524	1,621	1,719	1,833	1,930	2,064	2,242	1,386
Newly listed entity audits	89	64	100	114	125	118	161	209	160	1,140
- Main Board	76	53	76	97	89	73	83	133	141	821
- GEM	13	11	24	17	36	45	78	76	19	319
Decrease due to:										
Entities delisted	(7)	(5)	(3)	(8)	(9)	(13)	(17)	(13)	(33)	(108)
Entities under suspension	-	(3)	-	(8)	(2)	(8)	(10)	(18)	(23)	(72)
Others	-	-	-	-	-	-	-	-	(18) ¹	(18)
At the end of the period	1,468	1,524	1,621	1,719	1,833	1,930	2,064	2,242	2,328	2,328

¹ "Others" represents 18 entities yet to publish their annual reports up to 30 August 2020.

Figure 3.3 Industry classification of newly listed entity audits

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total	%
Consumer-related	53	25	41	51	47	43	63	82	56	461	40.4%
Properties and construction	7	11	16	19	25	29	42	48	37	234	20.5%
Industrials	4	5	13	9	14	13	19	24	18	119	10.4%
Financials	9	4	12	6	17	15	15	16	9	103	9.0%
Information technology	1	6	10	13	9	12	13	22	13	99	8.7%
Other industries ²	15	13	8	16	13	6	9	17	27	124	11.0%
Total	89	64	100	114	125	118	161	209	160	1,140	100%

² "Other industries" include conglomerates, energy, healthcare, materials, telecommunications and utilities.

Market capitalization of listed entities audited

The total market capitalization of listed entities audited increased by 85.2% from HK\$20,191 billion in 2010 to HK\$37,384 billion in 2019, representing a compound annual growth rate of 7.1% (Figure 3.4).

Figure 3.4 Total market capitalization of listed entities (by stock market) (in HK\$ billion)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Main Board	20,078	20,524	21,107	24,785	26,254	25,915	25,569	30,314	33,183	37,224
GEM	113	104	82	115	163	235	316	298	221	160
Total	20,191	20,628	21,189	24,900	26,417	26,150	25,885	30,612	33,404	37,384

Audit fees and non-audit fees

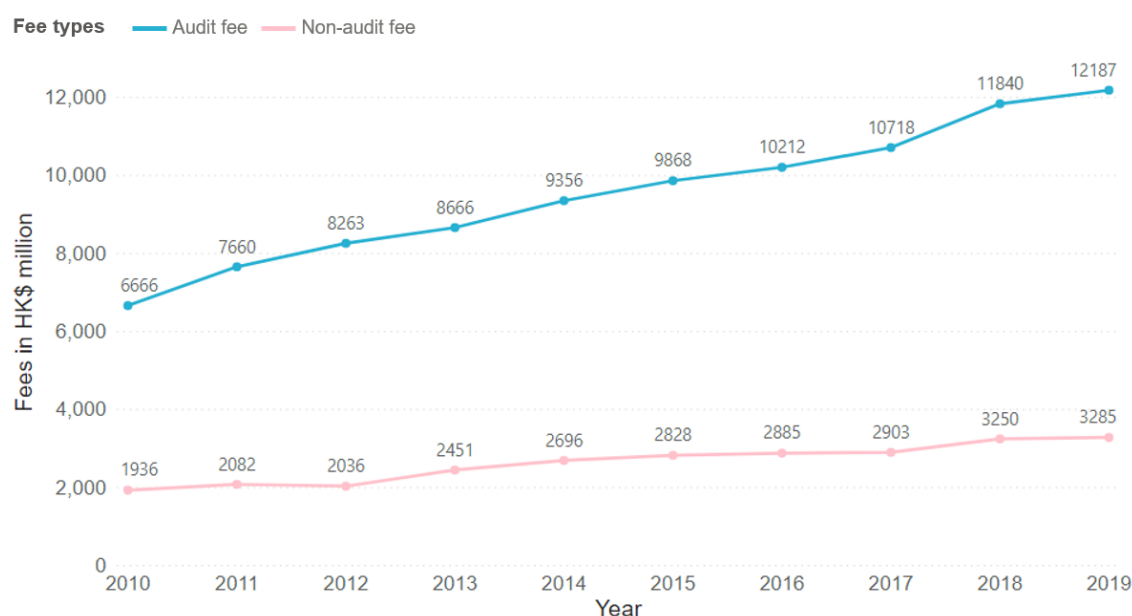
Audit fees represent the fees paid by listed entities for audit services (i.e. audit of the financial statements of listed entities).

Total audit fees paid by listed entities increased from HK\$6,666 million in 2010 to HK\$12,187 million in 2019, representing a compound annual growth rate of 6.9% (Figure 3.16).

Non-audit fees represent the fees paid by listed entities to their auditors for non-audit services (for example, review of internal control system, and provision of tax compliance and tax planning services).

Total non-audit fees paid by listed entities increased from HK\$1,936 million in 2010 to HK\$3,285 million in 2019, representing a compound annual growth rate of 6.1% (Figure 3.16).

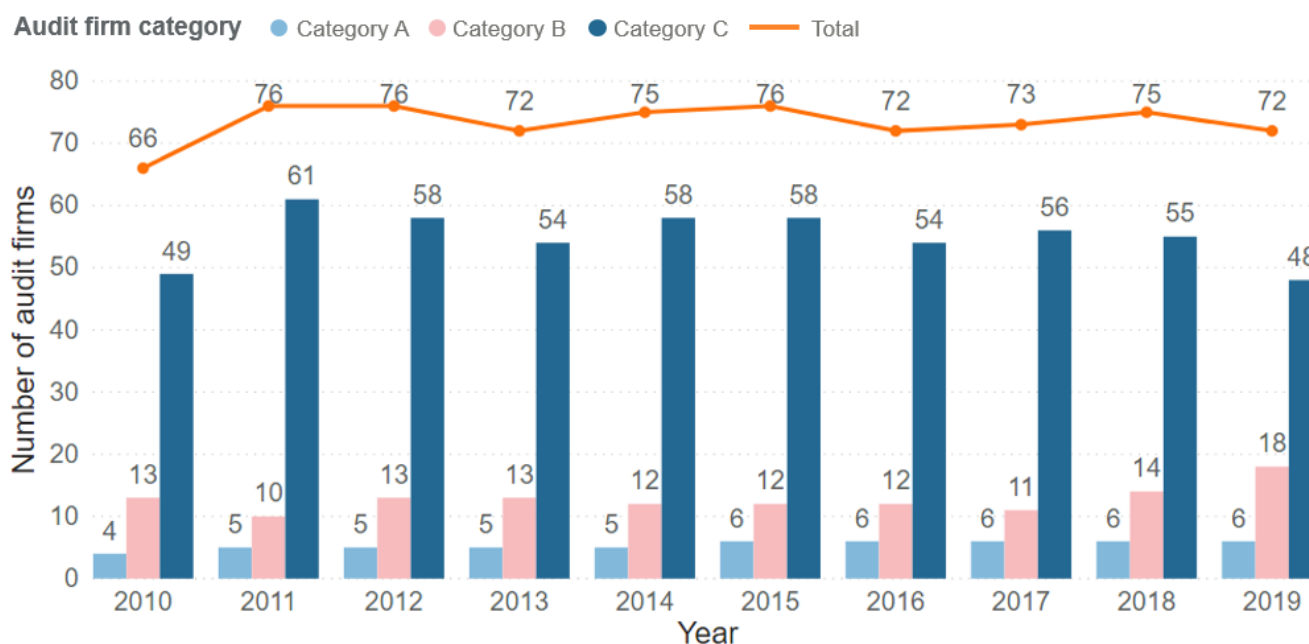
Figure 3.16 Audit and non-audit fees paid by listed entities (in HK\$ million)



Number of audit firms that performed listed entity audits

The total number of audit firms that performed listed entity audits increased from 66 in 2010 to 72 in 2019. The FRC categorizes listed entity auditors by the number of listed entity audits they perform (see section 6, page 57 for category definitions) for purposes of considering their relative systemic significance. Category C had the highest number of audit firms, followed by Category B and Category A (Figure 3.5).

Figure 3.5 Number of audit firms (by audit firm category)



Changes in listed entity auditors by category

There were 47 new entrants to the Market (19 local and 28 overseas audit firms) and 41 firms exited in the period (28 local and 13 overseas audit firms). All were in Category C.

The 11 Mainland audit firms recognized as PIE auditors that perform audits of listed entities in Hong Kong were permitted to perform audits of certain Mainland incorporated entities from 2011 (see page 22, footnote 3).

Certain listed entities incorporated in overseas jurisdictions are permitted to have an auditor regulated outside Hong Kong. These audit firms and the 11 Mainland audit firms recognized as PIE auditors rarely perform more than one or a few audits in the Market at any time and are therefore all included in Categories B and C. However, some of the listed entities they audit are individually more significant than the audits performed by local audit firms in Categories B and C. Accordingly the analysis by category of listed entity auditor of the Market in Figure 3.6 below presents information relating to Mainland and Overseas audit firms separately.

During the period, the number of local firms that performed listed entity audits reduced by 9 (18.0%) and the number of Mainland and overseas audit firms increased by 15 (93.8%).

All 16 of the Mainland and overseas firms in 2010 were in Category C, and 4 of these firms moved to Category B during the period.

Changes in listed entity auditors by category

Figure 3.6 Changes in audit firms performing listed entity audits (by audit firm category)

Number of audit firms	Local audit firms			Mainland and overseas audit firms		Total
	Category A	Category B	Category C	Category B	Category C	
At the beginning of the period	4	13	33	-	16	66
Firms entering the Market	-	-	19	-	28	47
Firms exiting the Market	-	-	(28)	-	(13)	(41)
Reclassifications						
• From Category B to Category A	2	(2)	-	-	-	-
• From Category B to Category C	-	(3)	3	-	-	-
• From Category C to Category B	-	6	(6)	4	(4)	-
At the end of the period	6	14	21	4	27	72

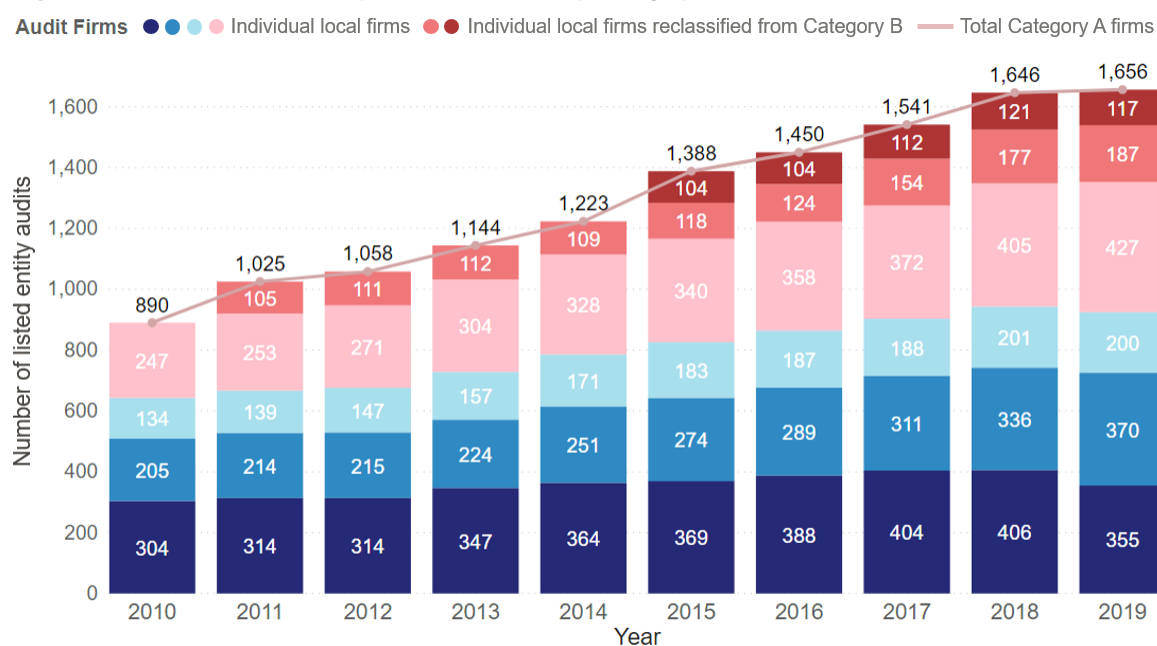
Audit firms by category

Category A

The audit firms in Category A are all local audit firms. The number of audit firms in Category A increased gradually from 4 in 2010 to 6 in 2019 (Figure 3.5). One audit firm was reclassified from Category B to A in each of 2011 and 2015 (Figure 3.7).

Audit firms in Category A audited between 64.2% and 75.7% of listed entities in each year. The number of listed entity audits performed by Category A audit firms increased by 86.1% from 890 in 2010 to 1,656 in 2019 (Figure 3.7), representing a compound annual growth rate of 7.1%. Category A audit firms also performed 82.1% (by number) of the audits of listed entities that were newly listed in the period (Figure 3.8).

Figure 3.7 Number of listed entity audits performed by Category A audit firms



Audit firms by category

Category A

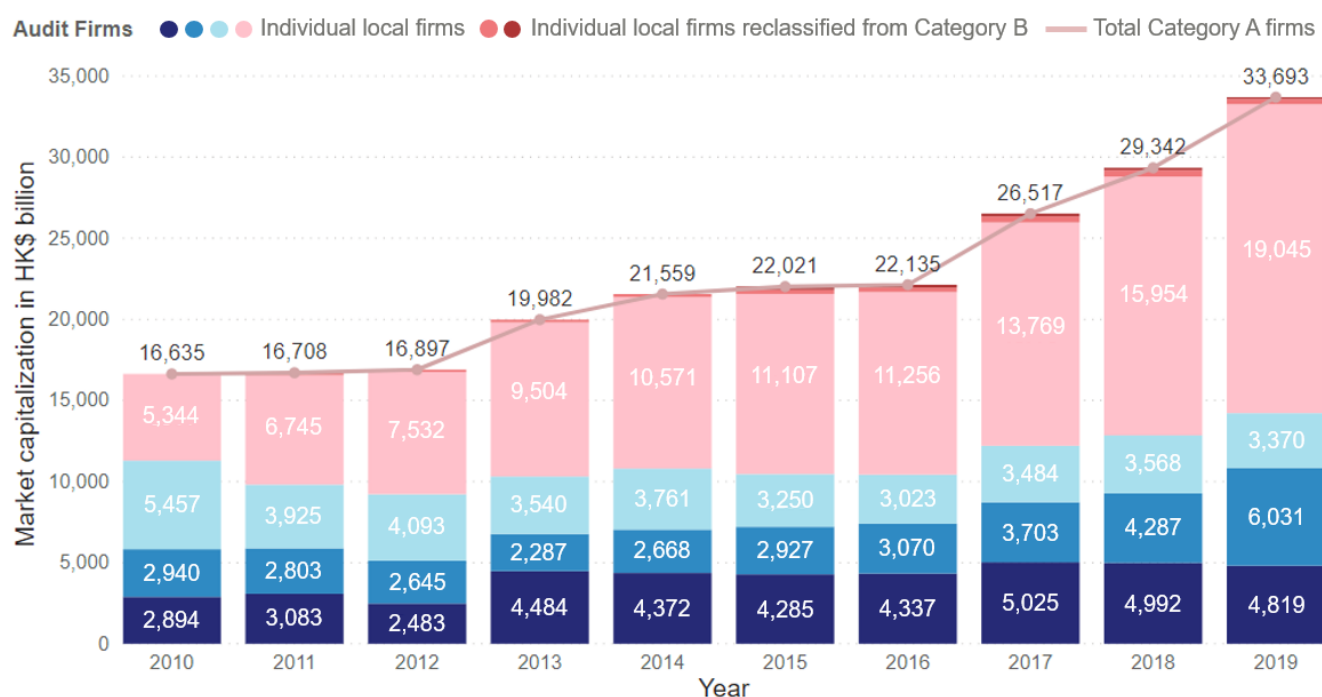
Figure 3.8 Number of newly listed entity audits by audit firm category and listed entity industry classification

Industry classification	Number of newly listed entities					Total
	Local audit firms			Mainland and overseas audit firms		
	Category A	Category B	Category C	Category B	Category C	
Consumer-related	385	48	8	2	18	461
Properties and construction	189	32	3	1	9	234
Industrials	89	22	3	-	5	119
Financials	87	14	1	-	1	103
Information technology	79	16	2	-	2	99
Others	107	7	2	-	8	124
Total (Percentage)	936 82.1%	139 12.2%	19 1.7%	3 0.3%	43 3.7%	1,140 100%

The listed entities audited by Category A audit firms accounted for between 79.7% and 90.1% of the total market capitalization in each year.

The market capitalization of listed entities audited by Category A audit firms increased by 102.5% from HK\$16,635 billion in 2010 to HK\$33,693 billion in 2019 (Figure 3.9), representing a compound annual growth rate of 8.2%.

Figure 3.9 Market capitalization of listed entities audited by Category A audit firms (in HK\$ billion)



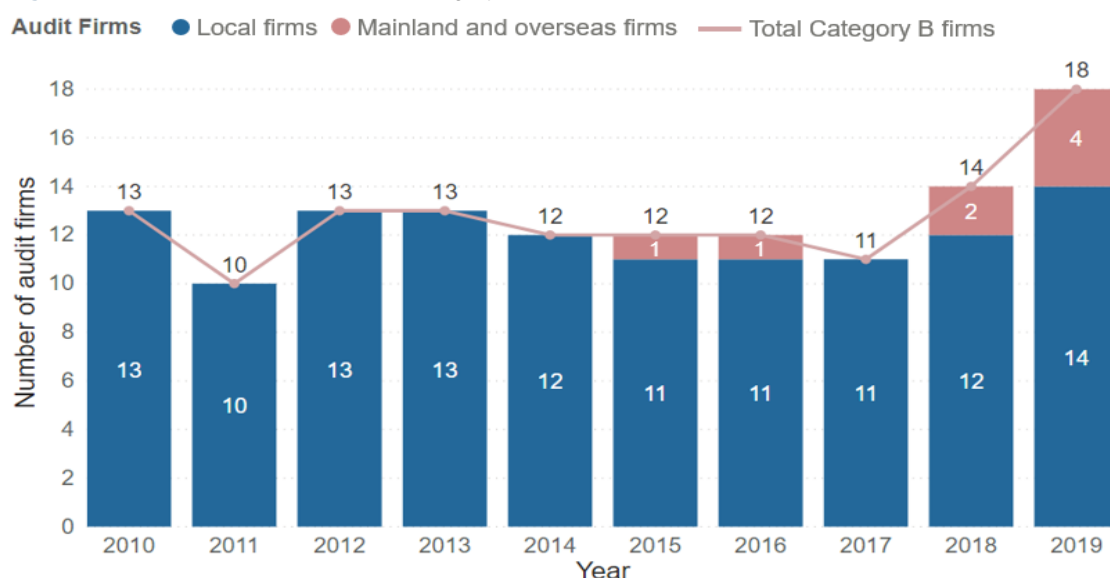
Audit firms by category

Category B

All but 4 Category B audit firms are local firms in 2019. Over the period, the number of audit firms in Category B ranged from 10 to 18 (Figure 3.10).

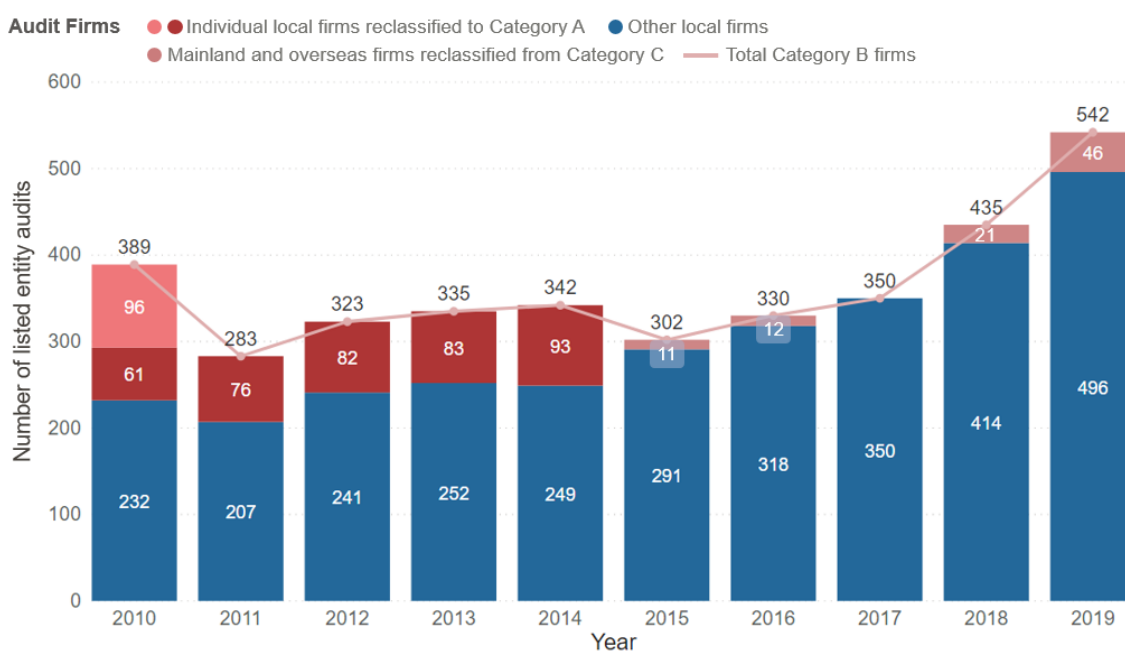
Changes in the number of audit firms in Category B were all due to reclassifications between categories throughout the period, including reclassifications of 4 overseas firms to Category B from C (Figure 3.6).

Figure 3.10 Number of audit firms in Category B



The number of listed entity audits performed by Category B audit firms increased by 39.3% from 389 in 2010 to 542 in 2019, representing a compound annual growth rate of 3.8% (Figure 3.11). Audits of 142 newly listed entities (12.5% of the total number of newly listed entities) over the period were carried out by audit firms in Category B (Figure 3.7).

Figure 3.11 Number of listed entity audits performed by Category B audit firms

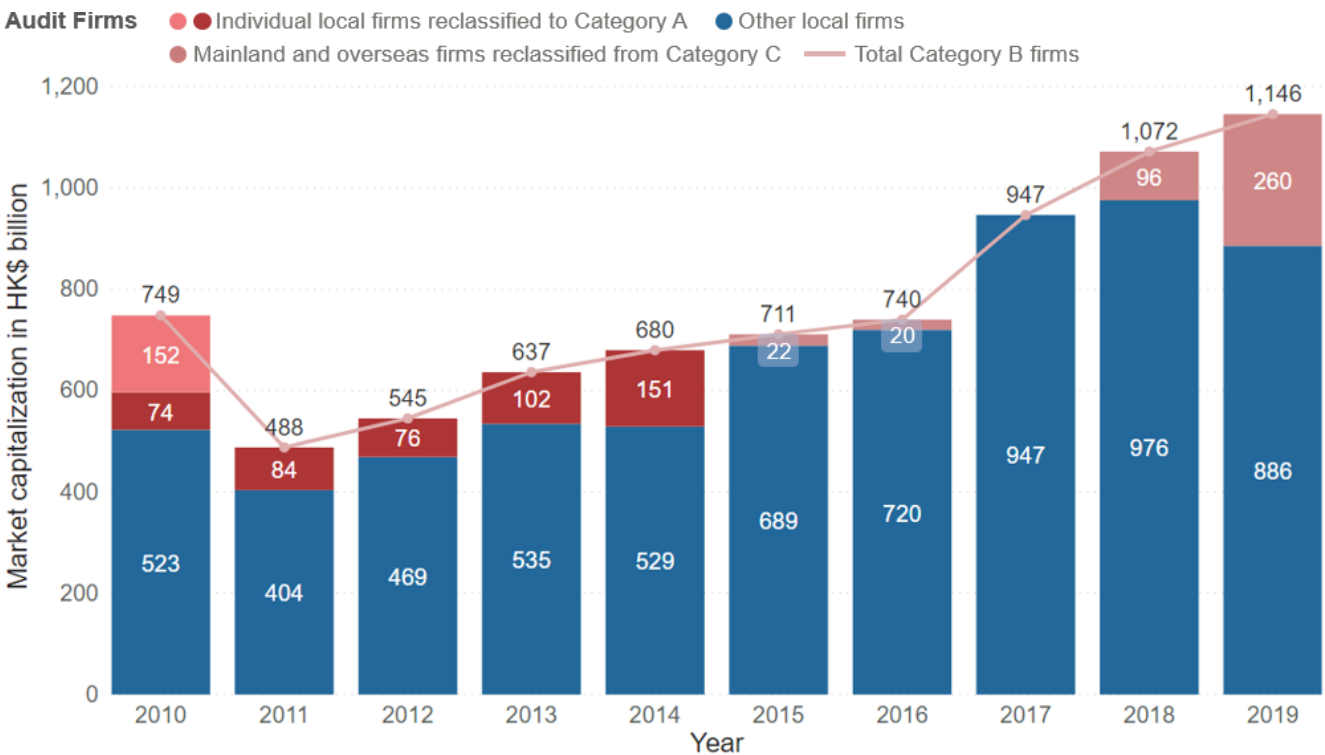


Audit firms by category

Category B

The market capitalization of listed entities audited by Category B audit firms was less than 4% of the total market capitalization in each year, with an increase from HK\$749 billion in 2010 to HK\$1,146 billion in 2019 (Figure 3.12), representing a compound annual growth rate of 4.8%.

Figure 3.12 Market capitalization of listed entities audited by Category B audit firms (in HK\$ billion)



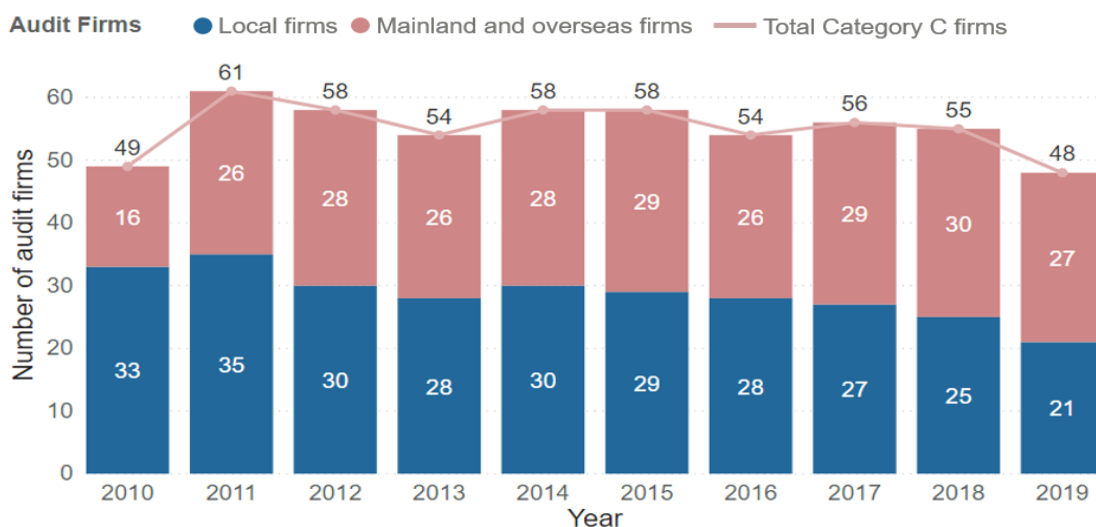
Audit firms by category

Category C

Category C had the highest number of audit firms (Figures 3.6 and 3.13).

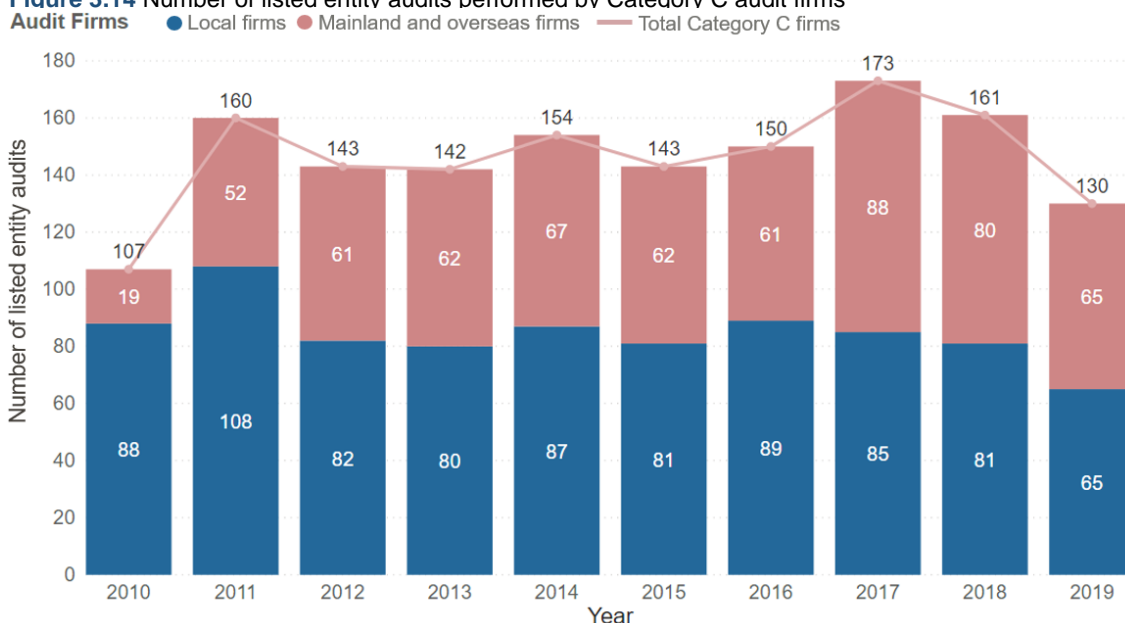
Changes in the number of audit firms in Category C during the period were due to (1) a significant number of local and overseas audit firms entering and exiting the Market, and (2) reclassifications of audit firms between Categories C and B (Figure 3.6).

Figure 3.13 Number of audit firms in Category C



The number of listed entity audits performed by Category C audit firms increased by 21.5% from 107 in 2010 to 130 in 2019, representing a compound annual growth rate of 2.2% (Figure 3.14). Over 40% of audit firms in Category C audited just one listed entity in each year. Audits of 62 newly listed entities (5.4% of the total number of newly listed entities) over the period were carried out by audit firms in Category C (Figure 3.7).

Figure 3.14 Number of listed entity audits performed by Category C audit firms



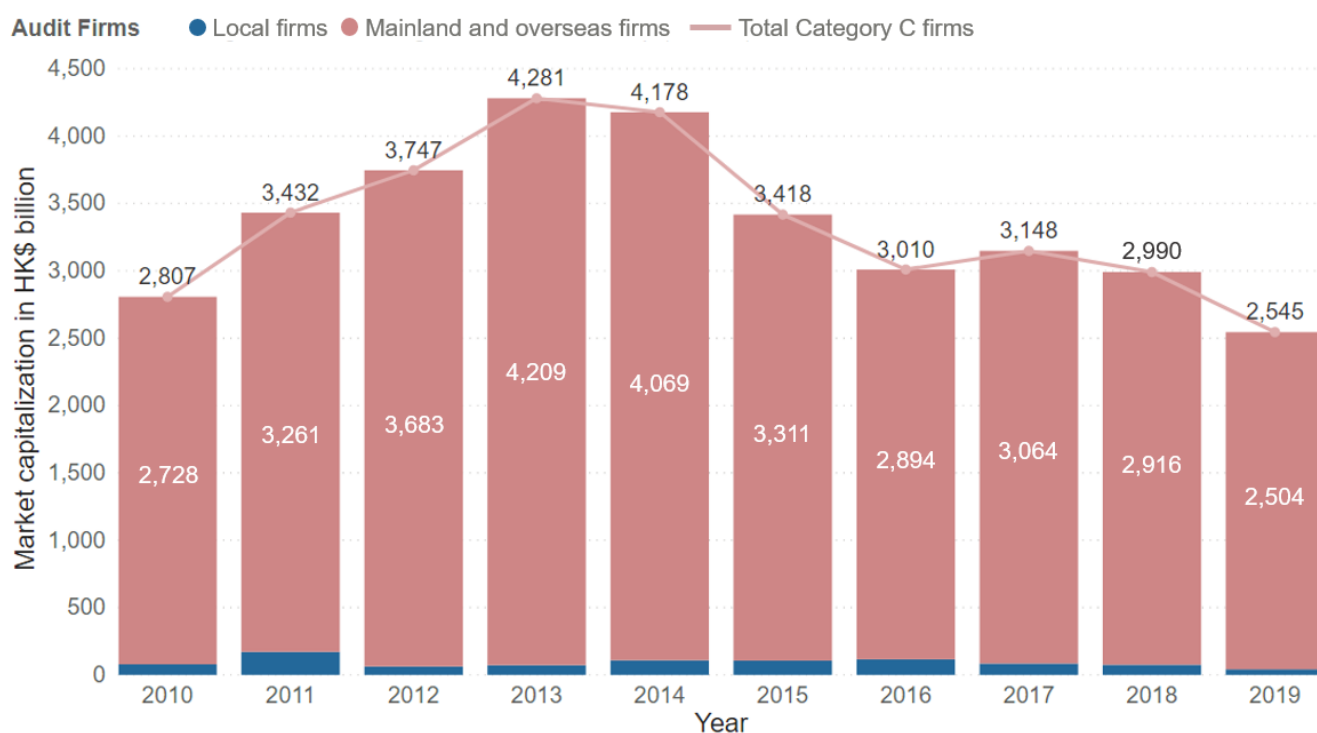
Audit firms by category

Category C

The listed entities audited by Category C audit firms accounted for between 7% and 18% of the total market capitalization of listed entities in each year, with substantially all of these audited by Mainland and overseas audit firms. The listed entities audited by overseas audit firms in Category C include a number of mega-sized entities in the banking and insurance industries.

The market capitalization of listed entities audited by Category C audit firms increased by 52.5% from HK\$2,807 billion in 2010 to HK\$4,281 billion to 2013, and decreased by 40.6% to HK\$2,545 billion in 2019 (Figure 3.15).

Figure 3.15 Market capitalization of listed entities audited by Category C audit firms (in HK\$ billion)





4. Market Concentration

Market concentration measures the extent of domination by one or more audit firms in the Market.

In this Report, market concentration is measured by the concentration ratio for Category A audit firms as expressed by their combined market share by number of listed entity audits, audit fees paid by listed entities, and market capitalization of listed entities audited.

There is consistently high market concentration in the Market.

Throughout the period, market concentration varied between 64.2% and 75.7%, and 76.1% and 80.2%, respectively by the number of listed entity audits and audit fees paid by listed entities (Figures 4.1), and between 79.7% and 90.1% by market capitalization of listed entities audited (Figures 4.1a).

Figure 4.1 Market share (%) of audit firms in terms of the number of listed entity audits and audit fees paid by listed entities

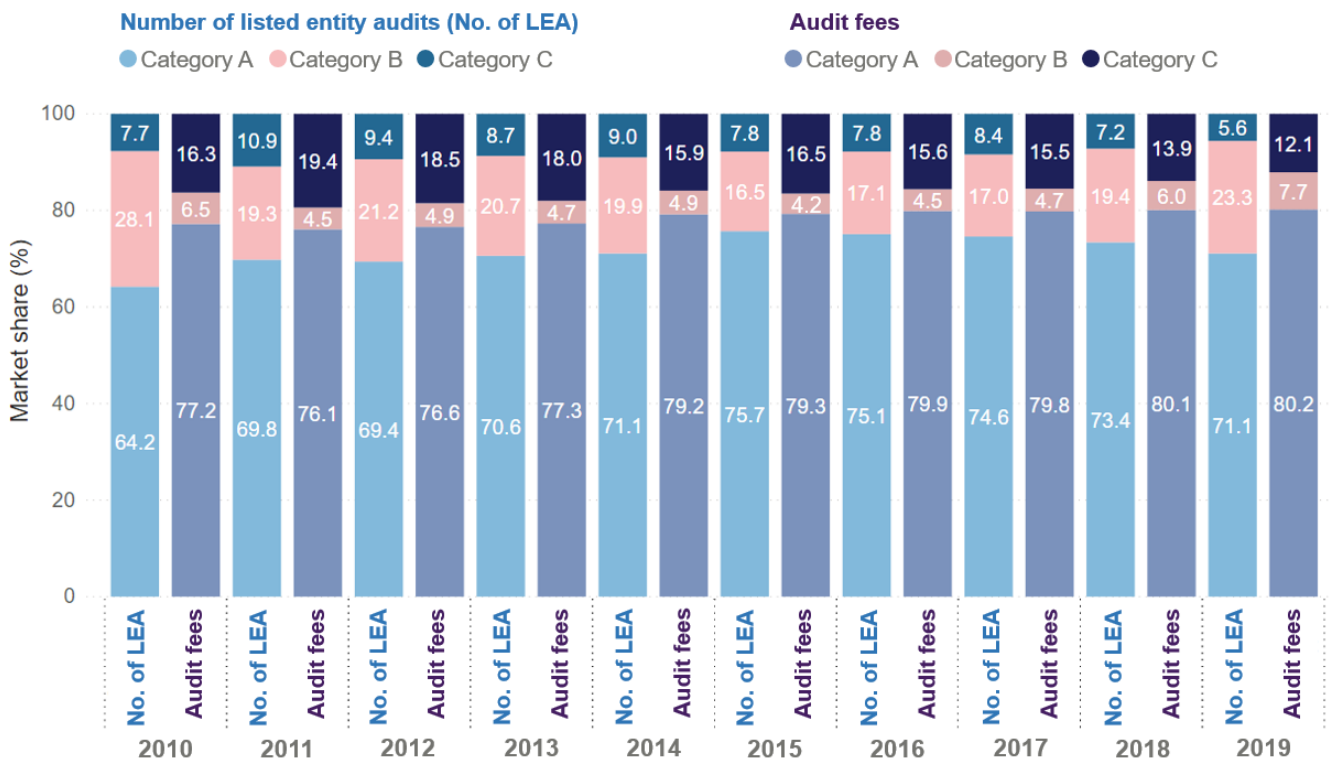
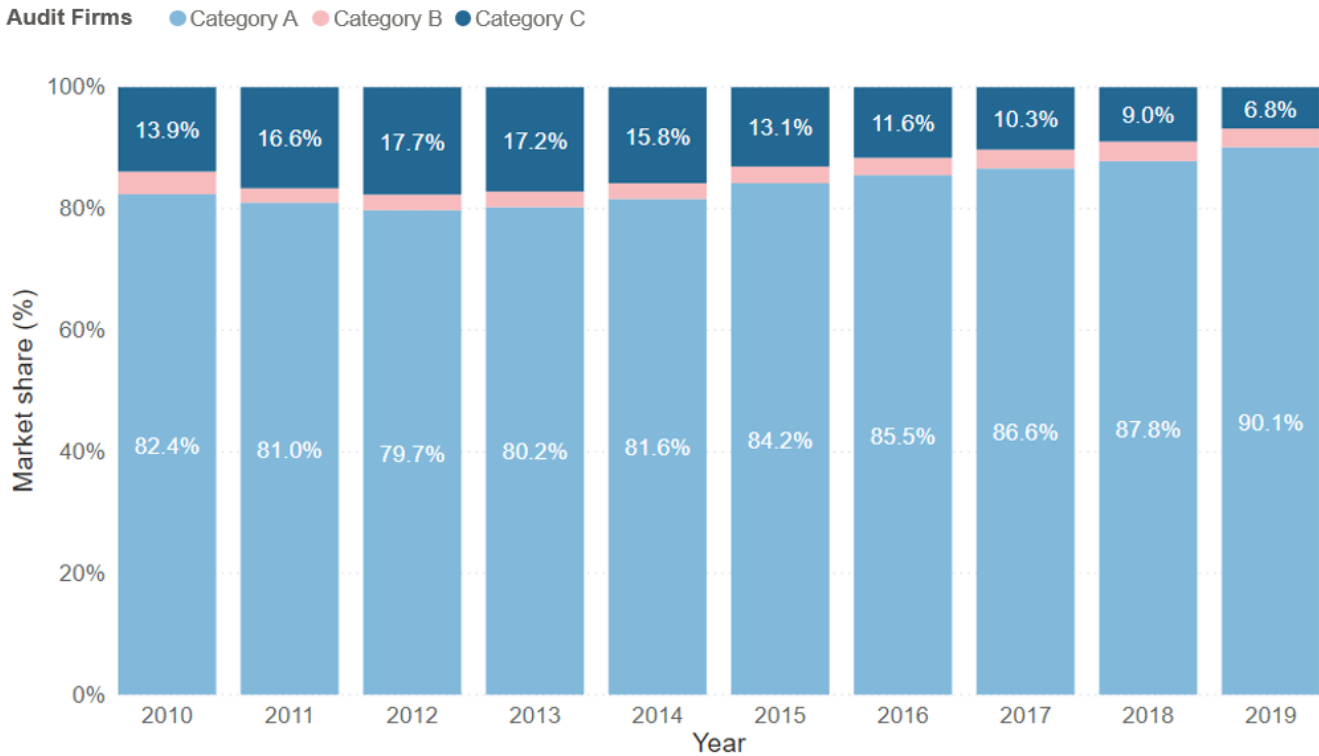


Figure 4.1a Market share (%) of audit firms in terms of the market capitalization of listed entities audited



Market concentration on the Main Board

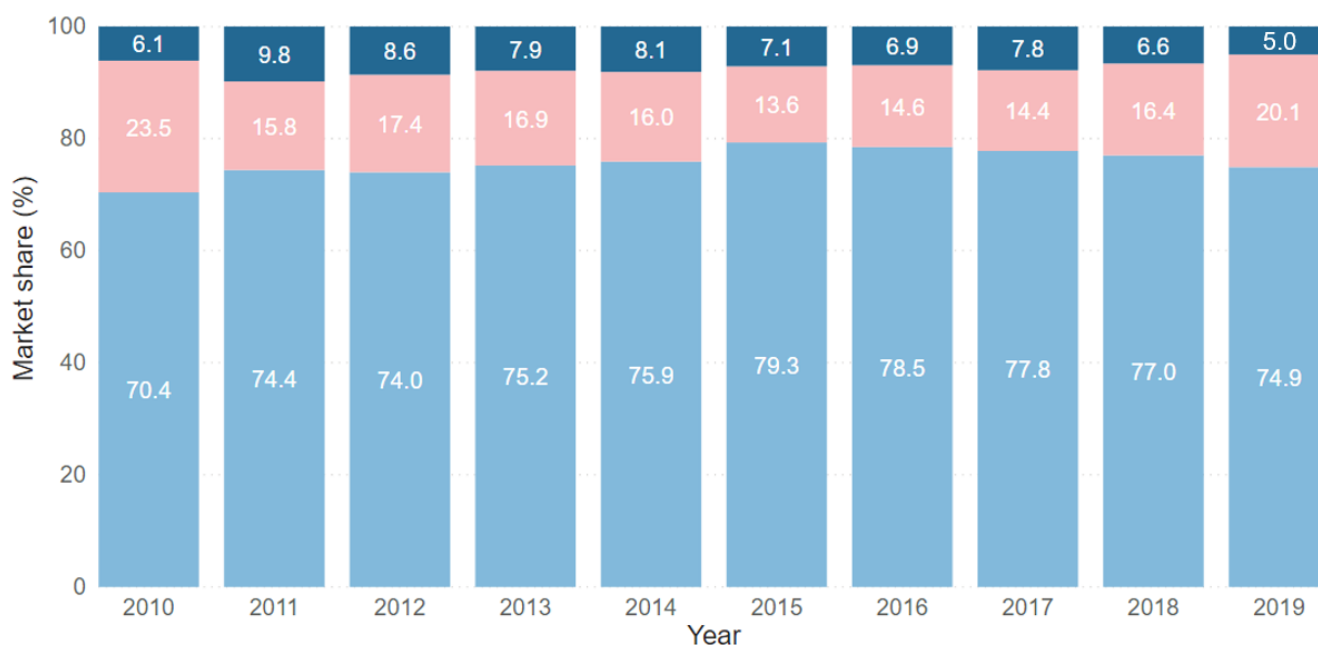
In terms of the number of listed entity audits

During the period, market concentration by the number of listed entity audits was between 70.4% and 79.3%. Audit firms in Categories B and C respectively had collective market shares between 13.6% and 23.5%, and 5.0% and 9.8% (Figure 4.2).



Figure 4.2 Market share (%) of audit firms in terms of the number of listed entity audits (Main Board)

Audit Firms ● Category A ● Category B ● Category C



Market concentration on the Main Board

In terms of the number of listed entity audits

Category A

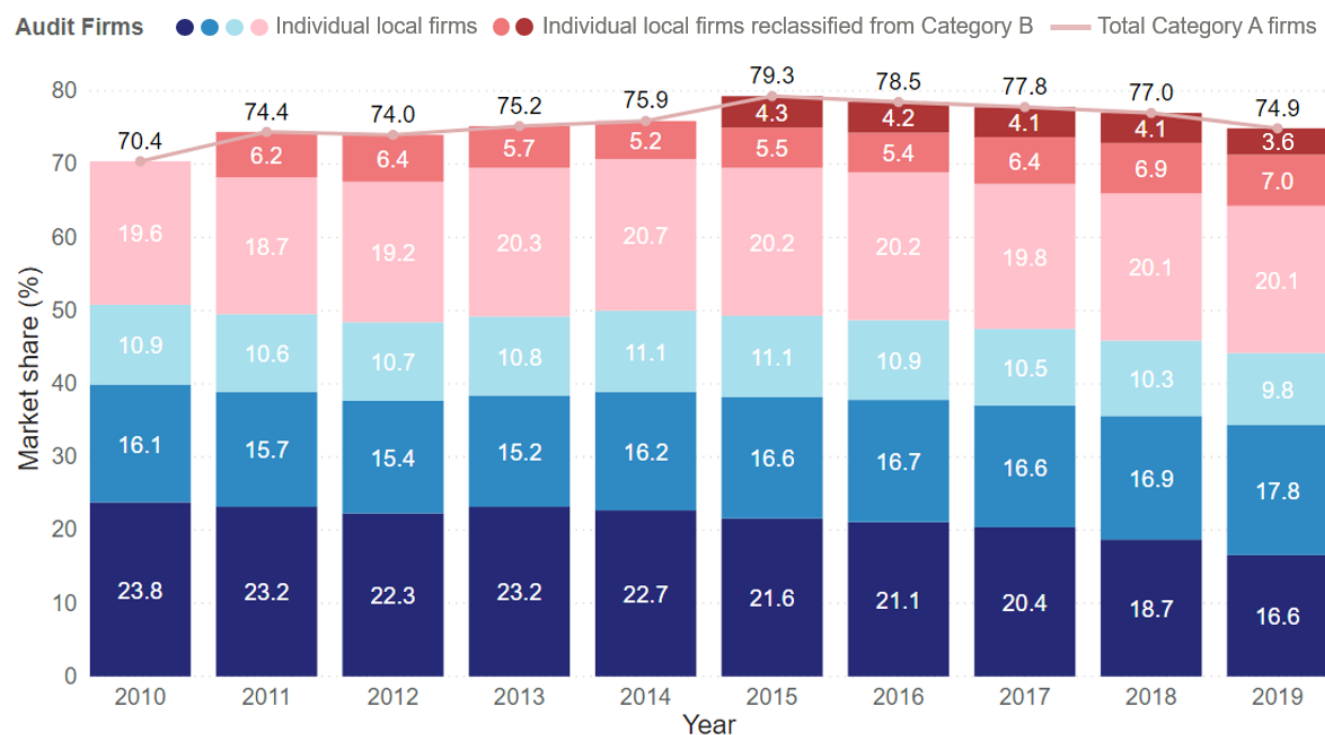
The market share of audit firms in Category A increased from 70.4% in 2010 to 74.9% in 2019 (Figure 4.2).

The increase was mainly due to the reclassification of one local audit firm from Category B to A in each of 2011 and 2015. Excluding the effect of the reclassification, the market share of audit firms in Category A would have decreased from 70.4% in 2010 to 64.3% in 2019.

Starting from 2011, the Mainland incorporated entities listed in Hong Kong were able to appoint one of 11 endorsed Mainland auditors in certain circumstances³. As a result, in 2011, 17 Mainland incorporated listed entities changed auditors from 4 local audit firms in Category A to 5 Mainland audit firms in Category C.

The decrease in market share in 2019 (Figure 4.3) was attributable to the resignation of an audit firm as the auditor of 46 entities listed on the Main Board. Other Category A audit firms took up the audits of 18 of these entities, while Categories B and C audit firms took up the remaining audits of 25 and 3 of these entities, respectively.

Figure 4.3 Market share (%) of audit firms in Category A in terms of the number of listed entity audits (Main Board)



³ On 15 December 2010, the Listing Rules were amended to allow Mainland incorporated entities listed in Hong Kong to prepare their financial statements using Chinese accounting standards; and to allow 11 Mainland audit firms approved by the MOF and the CSRC, and now recognized as PIE auditors, to perform the audits of Mainland incorporated entities listed in Hong Kong that prepare their financial statements under Chinese accounting standards (Mainland CAS listed entities).

Market concentration on the Main Board

In terms of the number of listed entity audits

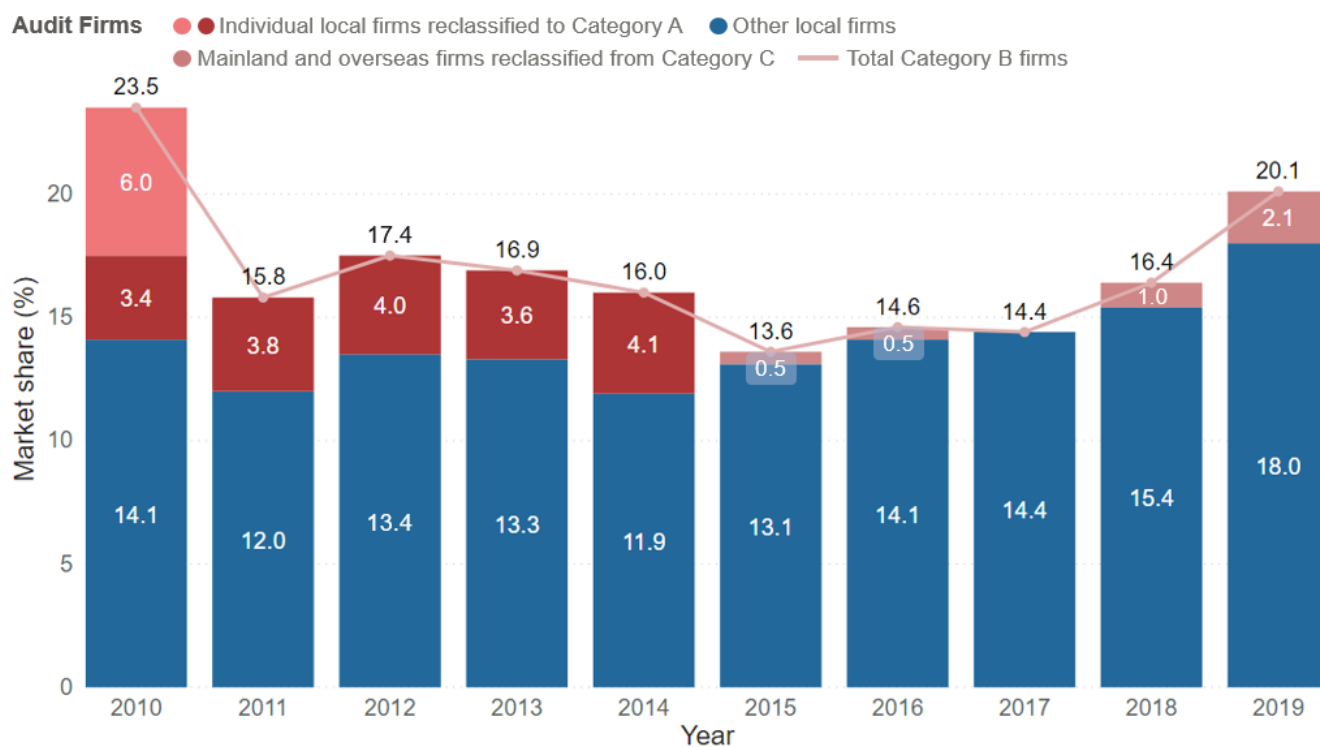
Category B

The market share of audit firms in Category B decreased from 23.5% in 2010 to 20.1% in 2019 (Figure 4.2).

The decrease was due to the decrease in the number of listed entity audits following the reclassification of one local audit firm to Category A in each of 2011 and 2015. Excluding the effect of the reclassification, the market share of audit firms in Category B would have increased from 23.5% in 2010 to 30.7% in 2019.

The increase in the number of listed entity audits from 2015 to 2019 (Figure 4.4) was a result of: (1) the reclassifications of four Mainland and overseas audit firms from Category C, and (2) an increase in the number of listed entity audit appointments held by three local audit firms. For these three local audit firms, the compound annual growth rate in the number of their listed entity audit appointments was about 20% over the period.

Figure 4.4 Market share (%) of audit firms in Category B in terms of the number of listed entity audits (Main Board)



Market concentration on the Main Board

In terms of the number of listed entity audits

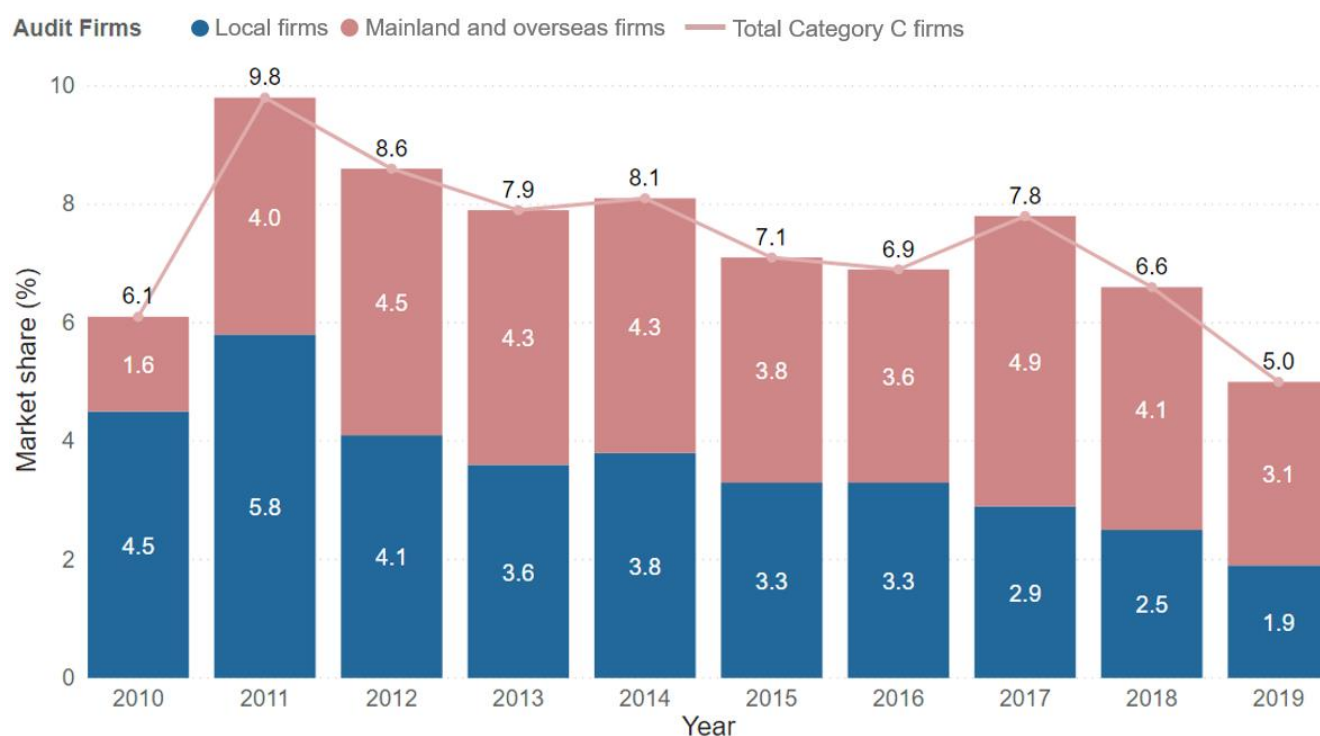
Category C

The market share of audit firms in Category C was relatively insignificant ([Figure 4.5](#)).

The movements were mainly due to the following reasons:

- (1) The Listing Rules change to permit Mainland audit firms to carry out the audits of Mainland incorporated entities listed in Hong Kong starting from 2011; and
- (2) Reclassifications of audit firms between Categories B and C.

Figure 4.5 Market share (%) of audit firms in Category C in terms of the number of listed entity audits (Main Board)

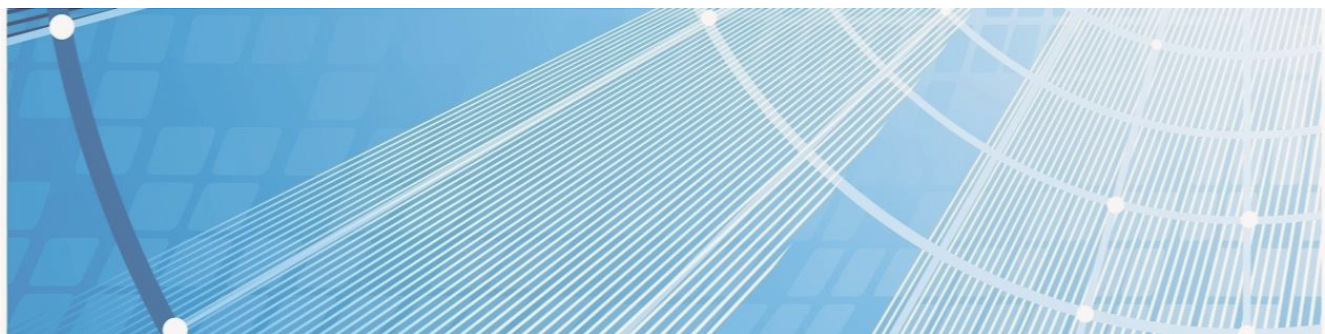
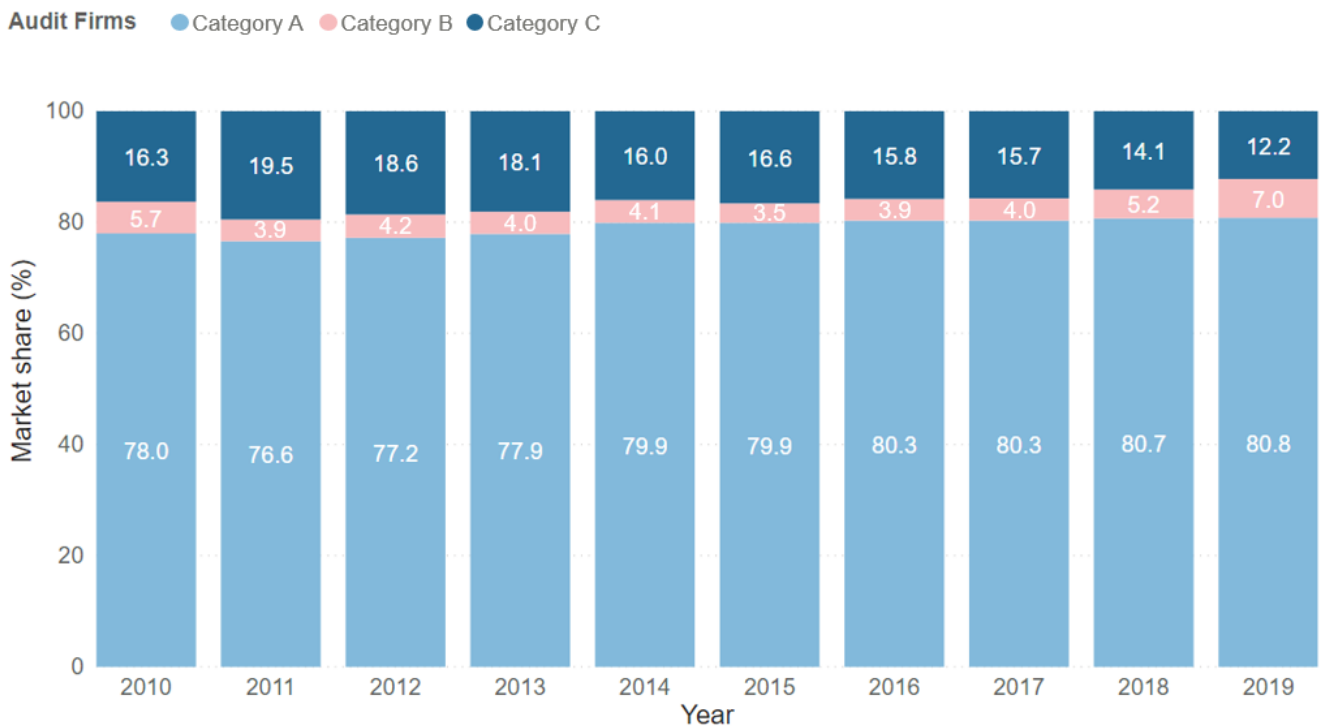


Market concentration on the Main Board

In terms of the audit fees paid by listed entities

During the period, market concentration by audit fees paid by listed entities was between 76.6% and 80.8%. Audit firms in Categories B and C respectively had collective market shares between 3.5% and 7.0%, and 12.2% and 19.5% (Figure 4.6).

Figure 4.6 Market share (%) of audit firms in terms of the audit fees paid by listed entities (Main Board)



Market concentration on the Main Board

In terms of the audit fees paid by listed entities

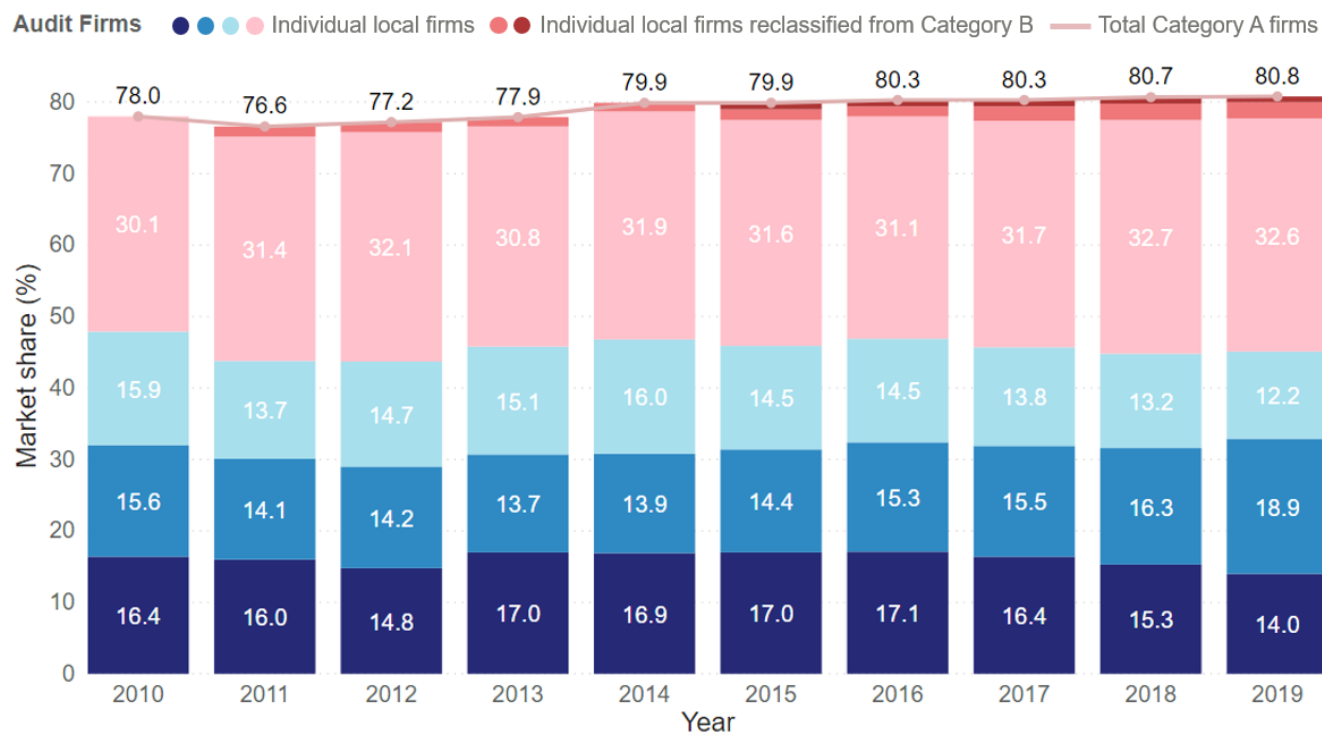
Category A

The market share of audit firms in Category A fluctuated between 76.6% and 80.8% from 2010 to 2019 (Figure 4.7).

One audit firm in Category A had a market share between 30.1% and 32.7% in terms of the audit fees paid by listed entities during the period (Figure 4.7), compared with its market share in terms of the number of listed entity audits of about 20% over the period (Figure 4.3).

The reclassification of two Category A audit firms from Category B over the period, and the resignation by one Category A audit firm as the auditor of 46 listed entities in 2019 (see page 22) did not have a significant impact on the market share of Category A audit firms in terms of the audit fees paid by listed entities.

Figure 4.7 Market share (%) of audit firms in Category A in terms of the audit fees paid by listed entities (Main Board)



Market concentration on the Main Board

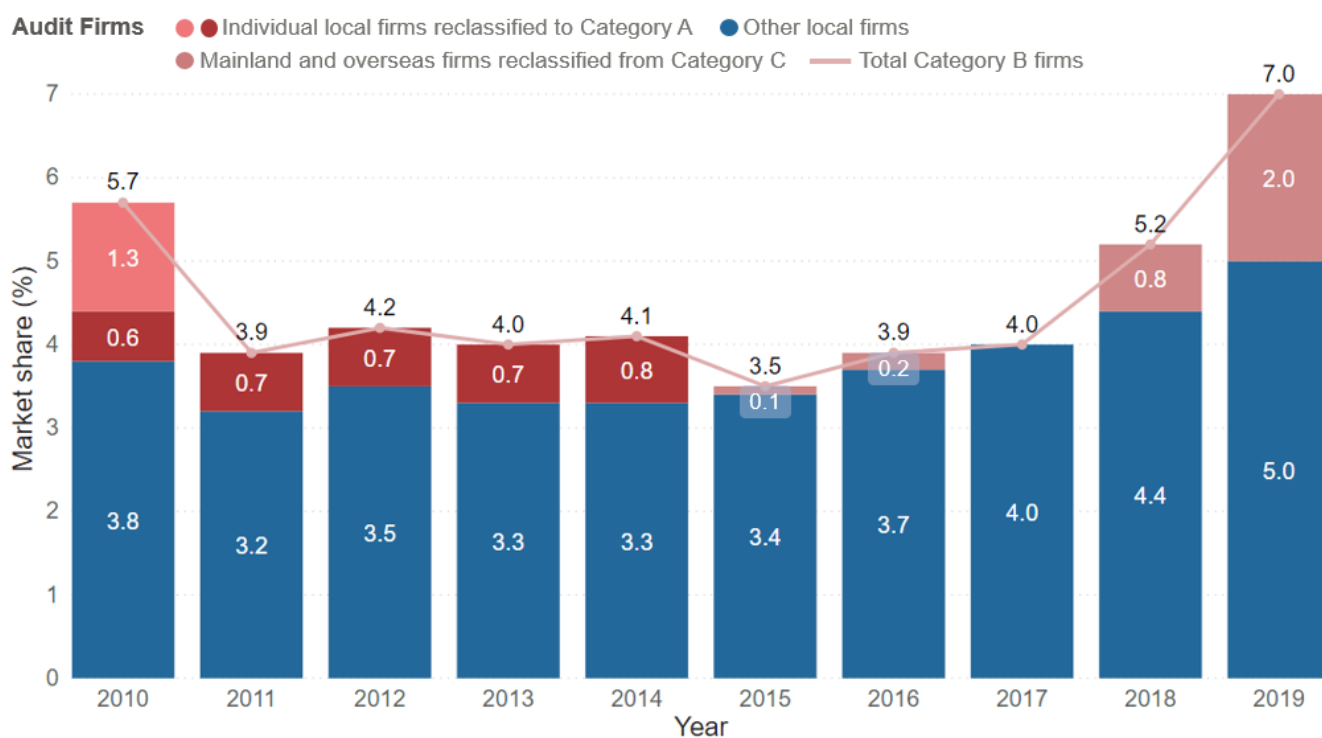
In terms of the audit fees paid by listed entities

Category B

The aggregate market share of Category B audit firms was less than 7% over the period, which was less than for either Category A or C (Figure 4.6).

The change in market share of Category B audit firms in terms of the audit fees paid by listed entities (Figure 4.8) was due to the change in the market share in terms of the number of listed entity audits (Figure 4.4).

Figure 4.8 Market share (%) of audit firms in Category B in terms of the audit fees paid by listed entities (Main Board)



Market concentration on the Main Board

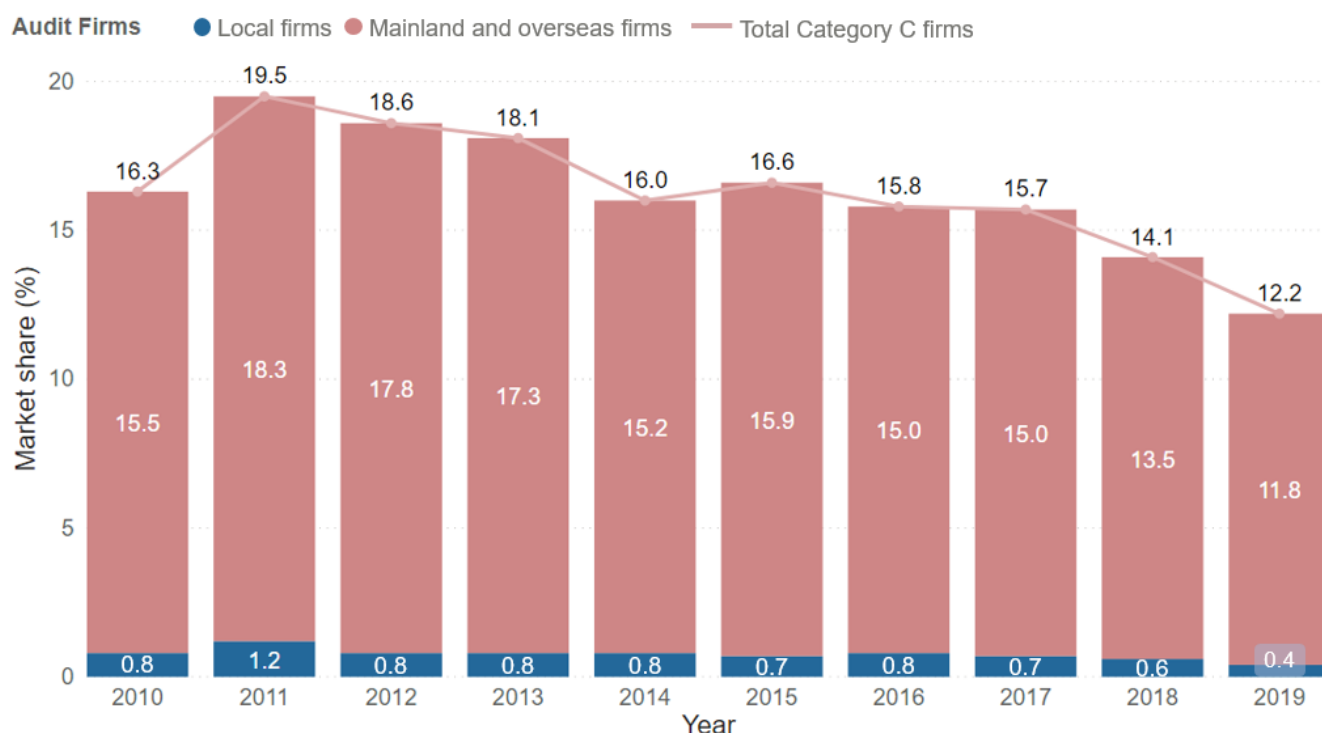
In terms of the audit fees paid by listed entities

Category C

The listed entities audited by Category C audit firms accounted for 12.2% to 19.5% of the total market share of audit fees paid by entities listed on the Main Board (Figure 4.9). These listed entities include a number of mega-sized entities in the banking and insurance industries audited by overseas audit firms (see page 17).

The change in market share of audit fees paid by listed entities for Category C audit firms (Figure 4.9) was due to the change in their market share of the number of listed entity audits (Figure 4.5).

Figure 4.9 Market share (%) of audit firms in Category C in terms of the audit fees paid by listed entities (Main Board)



Market concentration on GEM

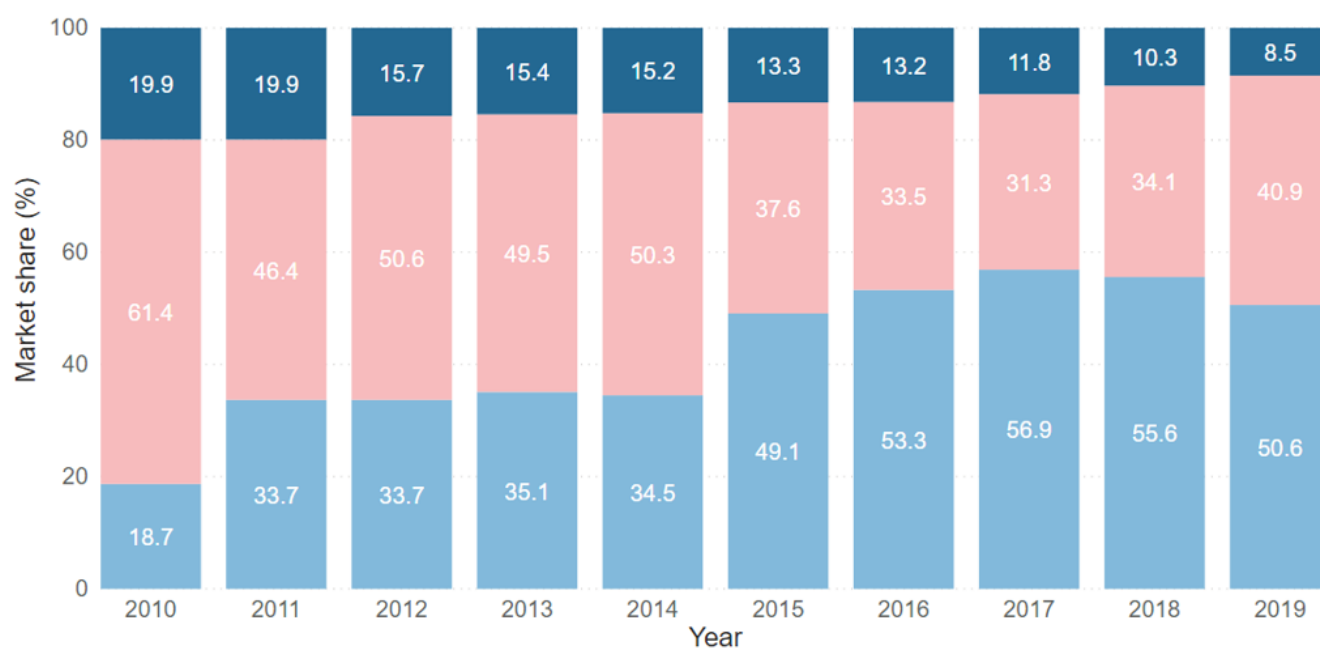
In terms of the number of listed entity audits

Audit firms in Category B accounted for about 61% of the market share in 2010. However, this was less apparent from 2011. Starting from 2015, the audit firms in Category A accounted for between 49.1% and 56.9% of the total number of the audits of GEM listed entities (Figure 4.10).



Figure 4.10 Market share (%) of audit firms in terms of the number of listed entity audits (GEM)

Audit Firms ● Category A ● Category B ● Category C



Market concentration on GEM

In terms of the number of listed entity audits

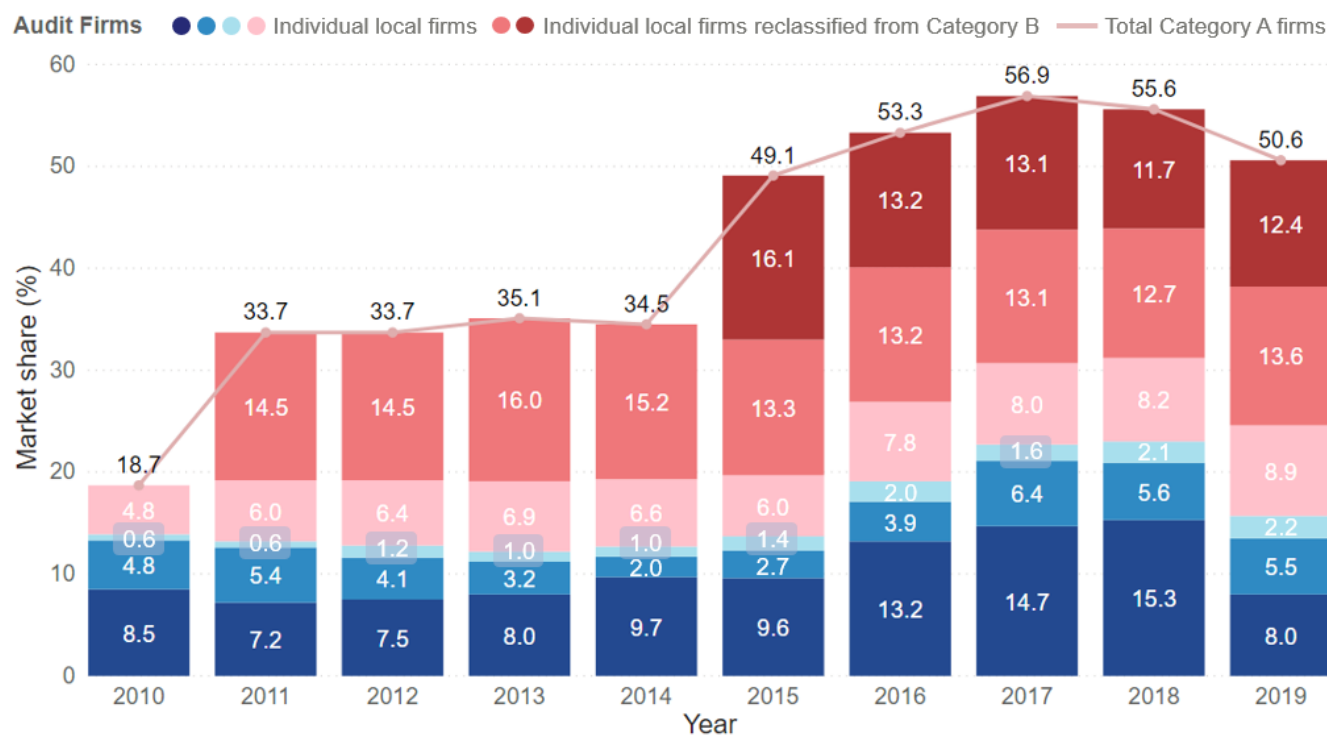
Category A

The market share of audit firms in Category A significantly increased from 18.7% in 2010 to 50.6% in 2019 (Figure 4.11).

The increase was mainly due to the significant increase in the number of listed entity audits following the reclassification of two local audit firms from Category B over the period. Excluding the effect of the reclassification, the market share of audit firms in Category A would have increased from 18.7% in 2010 to 24.6% in 2019.

The decrease in market share in 2019 (Figure 4.11) was a result of the resignation of one Category A audit firm as the auditor of 23 GEM listed entities. Other audit firms in Category A took up the audits of 14 of these entities, while audit firms in Categories B and C took up the remaining audits of 6 and 3 of these entities, respectively.

Figure 4.11 Market share (%) of audit firms in Category A in terms of the number of listed entity audits (GEM)



Market concentration on GEM

In terms of the number of listed entity audits

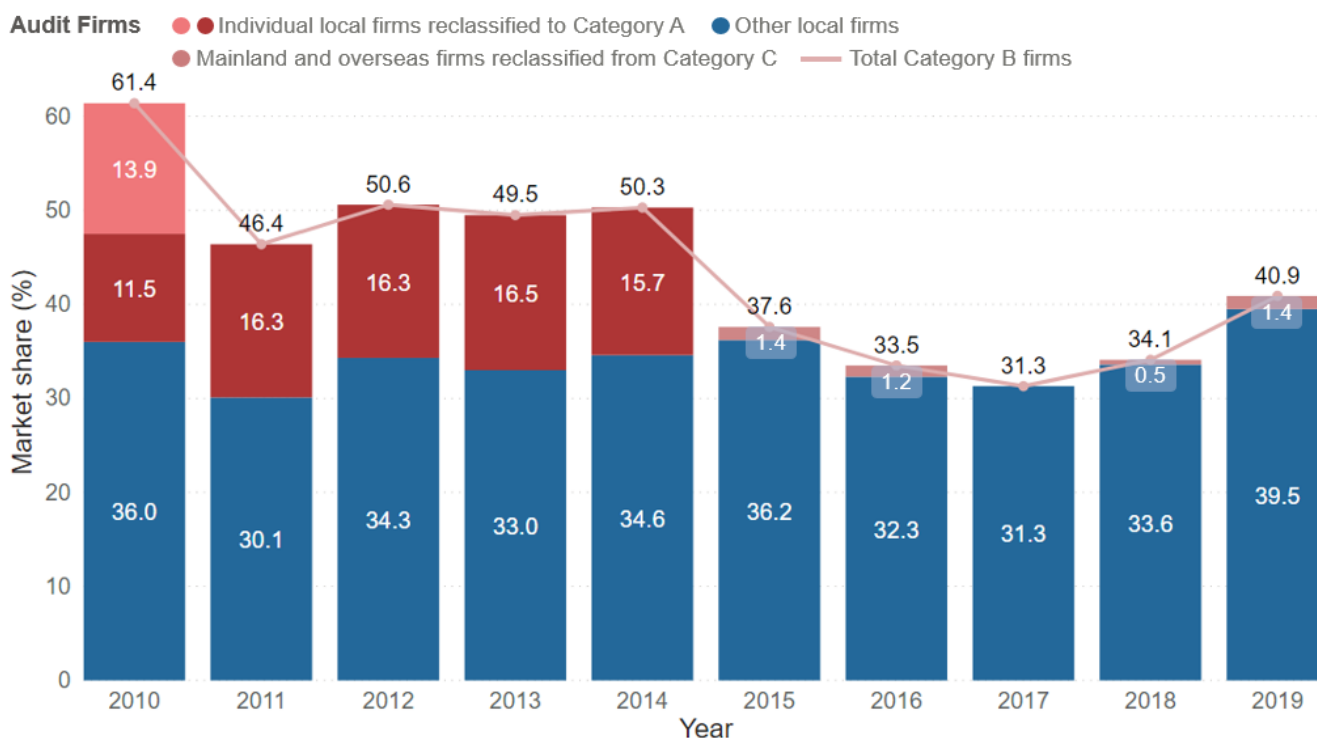
Category B

The market share of audit firms in Category B decreased from 61.4% in 2010 to 40.9% in 2019 (Figure 4.12).

The decrease in market share was due to the reclassification of two local audit firms to Category A during the period. Excluding the effect of the reclassification, the market share of audit firms in Category B would have increased from 61.4% in 2010 to 66.9% in 2019.

The increase in market share in 2019 (Figure 4.12) was a result of the resignation of one Category A audit firm as the auditor of 23 GEM listed entities. Audit firms in Category B took up the audits of 6 of these entities in 2019.

Figure 4.12 Market share (%) of audit firms in Category B in terms of the number of listed entity audits (GEM)



Market concentration on GEM

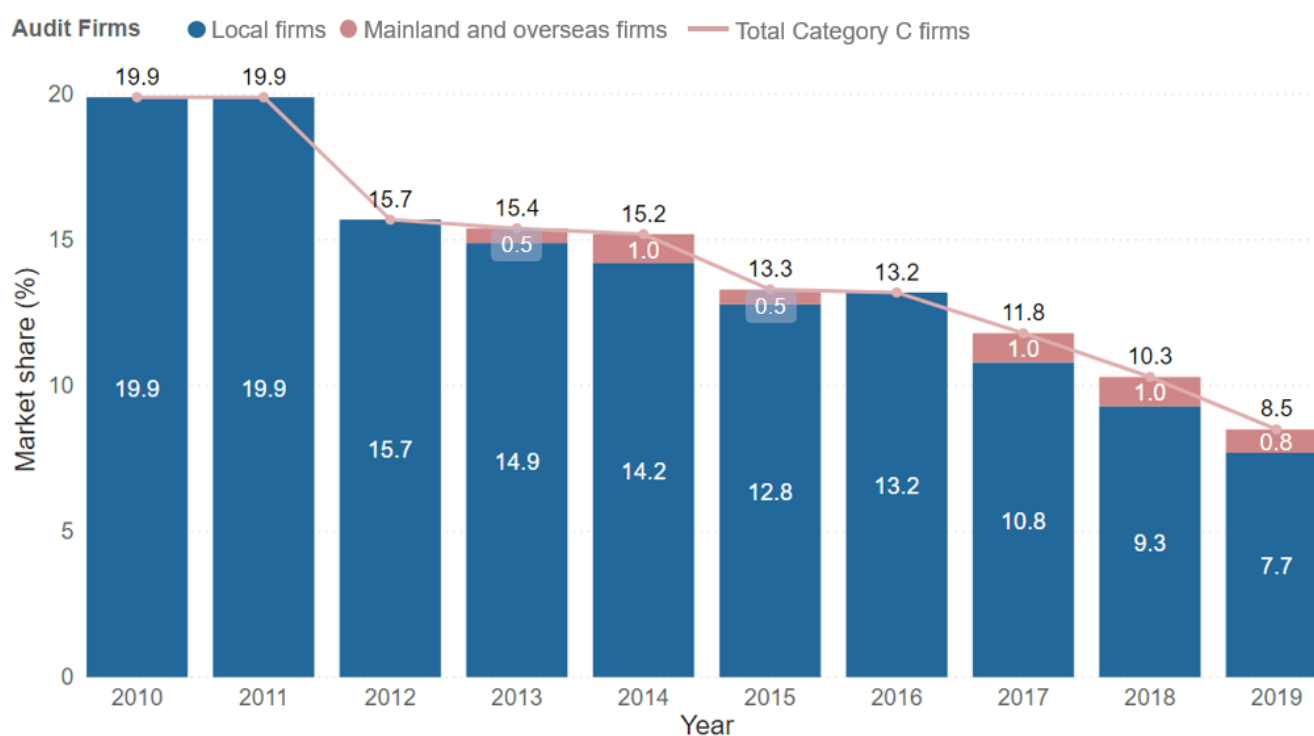
In terms of the number of listed entity audits

Category C

The market share of audit firms in Category C decreased from 19.9% in 2010 to 8.5% in 2019 (Figure 4.13).

The decrease in market share over the period (Figure 4.13) was mainly due to (1) the decrease in the number of audit firms in Category C that audited only one listed entity in each year and (2) reclassifications of audit firms between Categories B and C.

Figure 4.13 Market share (%) of audit firms in Category C in terms of the number of listed entity audits (GEM)

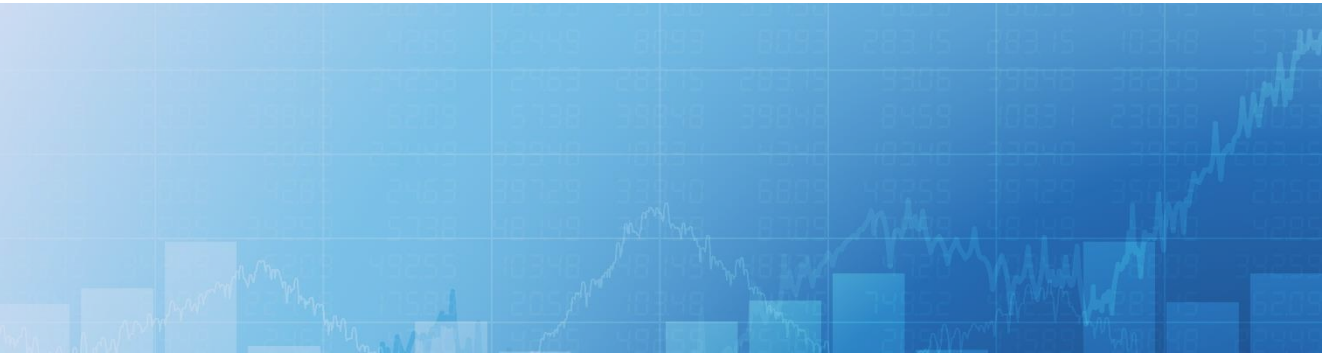
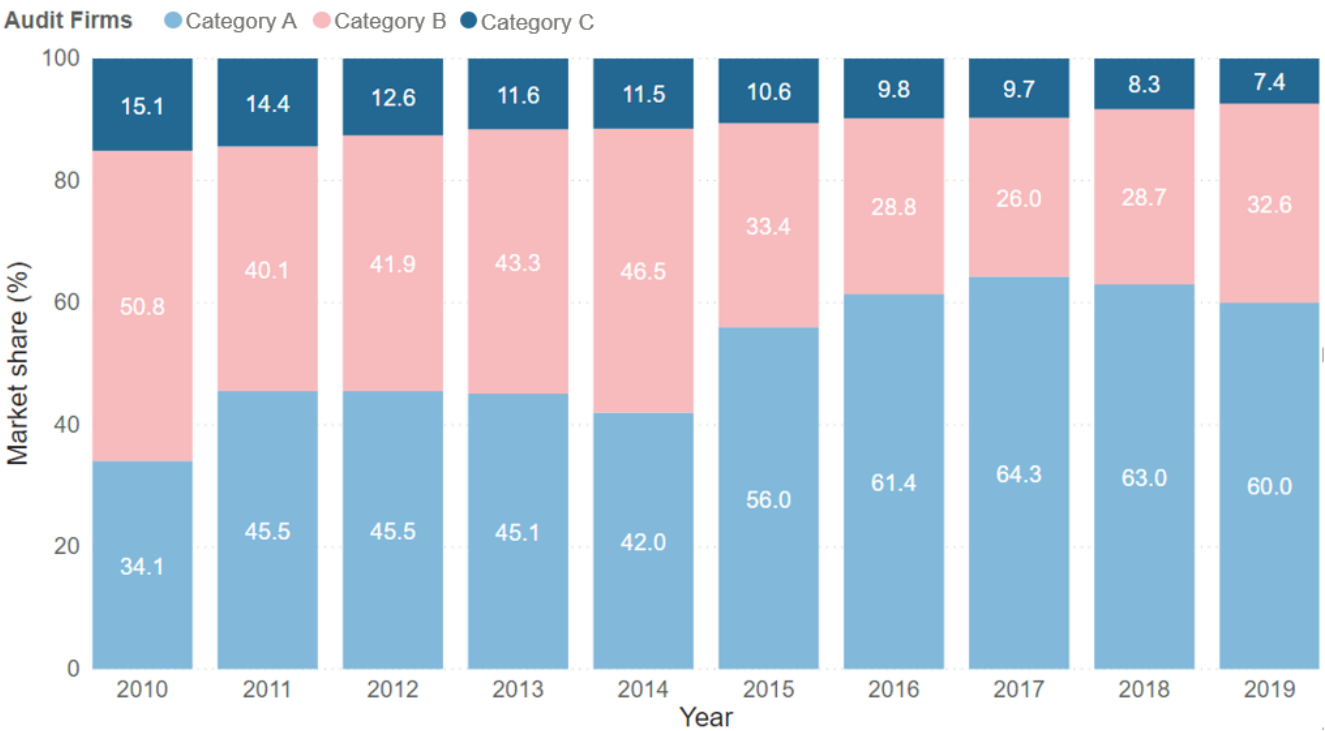


Market concentration on GEM

In terms of the audit fees paid by listed entities

The change in market share over the period was due to the change in market share in terms of the number of listed entity audits (Figure 4.14).

Figure 4.14 Market share (%) of audit firms in terms of the audit fees paid by listed entities (GEM)



Market concentration on GEM

In terms of the audit fees paid by listed entities

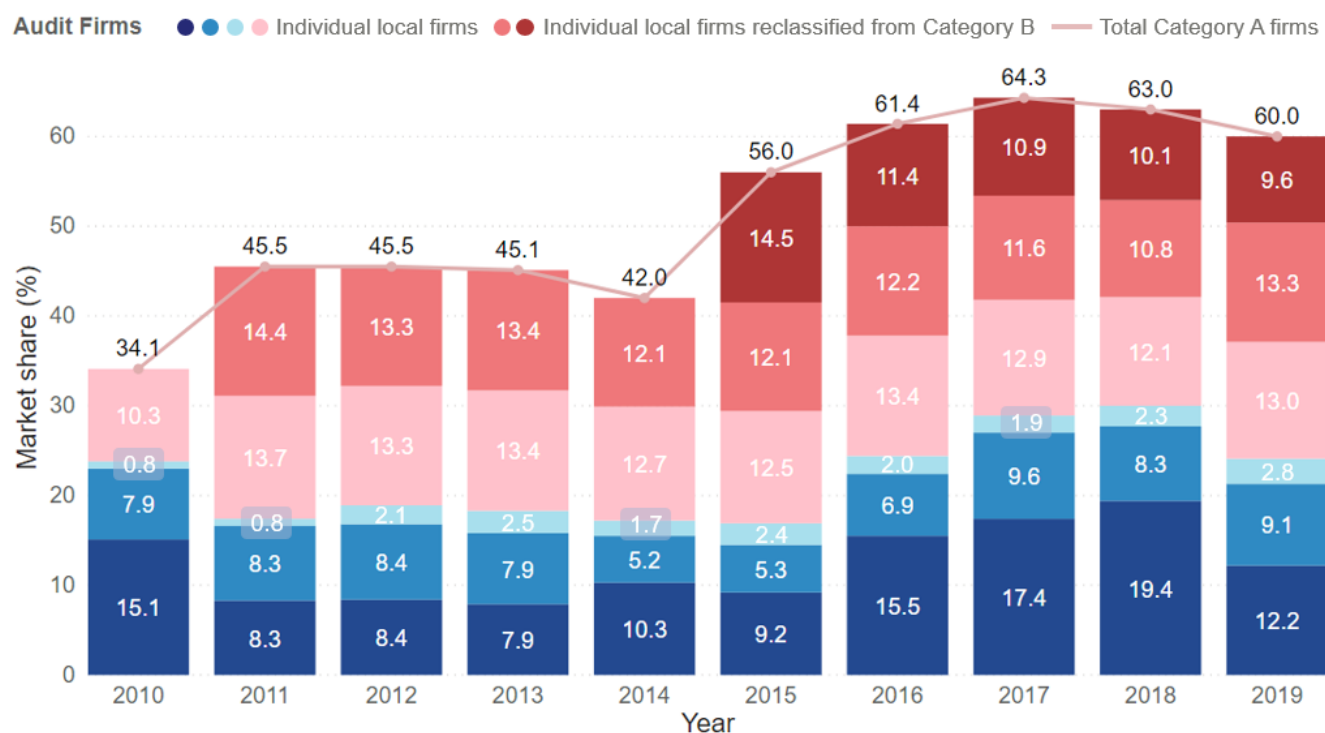
Category A

The market share of audit firms in Category A significantly increased from 34.1% in 2010 to 60.0% in 2019 (Figure 4.15).

The change in their market share in terms of the audit fees paid by listed entities (Figure 4.15) was due to the change in their market share in terms of the number of listed entity audits (Figure 4.11).

Excluding the effect of the reclassification of audit firms from Category B, the market share of audit firms in Category A would increase from 34.1% in 2010 to 37.1% in 2019.

Figure 4.15 Market share (%) of audit firms in Category A in terms of the audit fees paid by listed entities (GEM)



Market concentration on GEM

In terms of the audit fees paid by listed entities

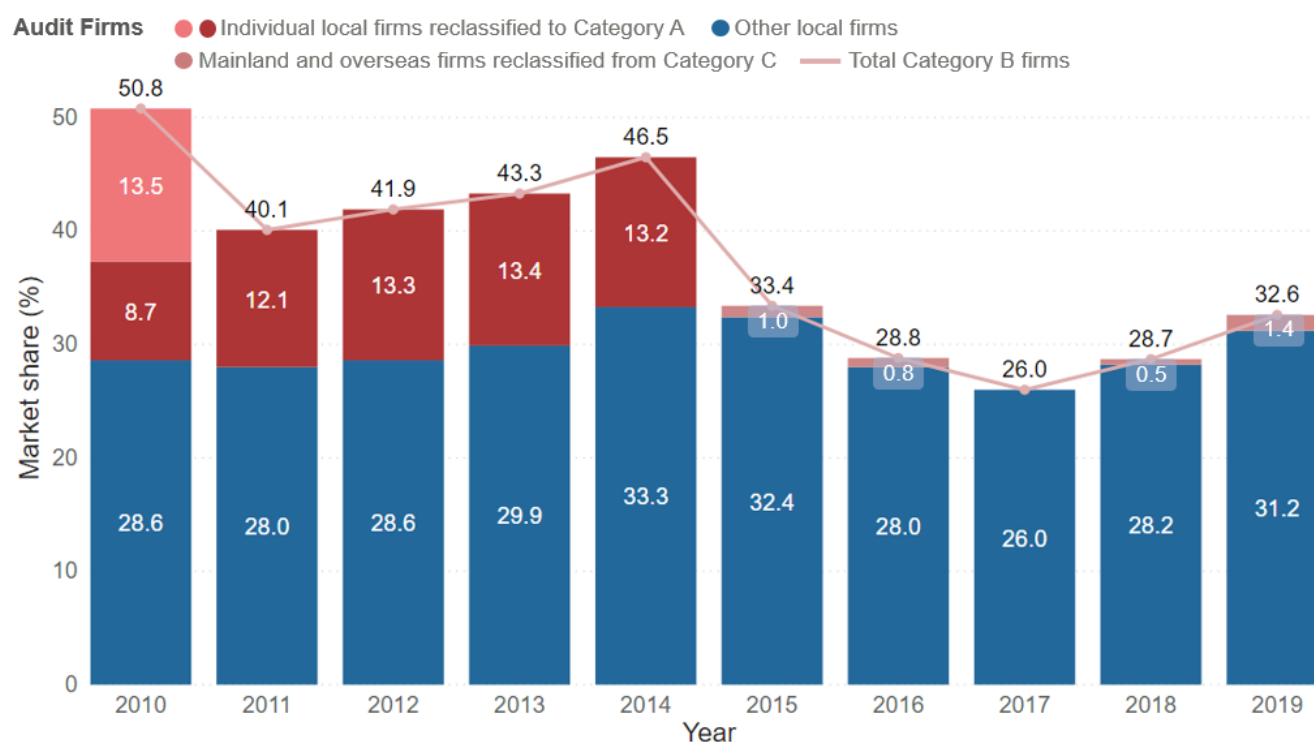
Category B

The market share of audit firms in Category B decreased from 50.8% in 2010 to 32.6% in 2019 (Figure 4.16).

The change in their market share in terms of the audit fees paid by listed entities (Figure 4.16) was due to the change in their market share in terms of the number of listed entity audits (Figure 4.12).

Excluding the effect of the reclassification of two audit firms to Category A, the market share of audit firms in Category B would increase from 50.8% in 2010 to 55.5% in 2019.

Figure 4.16 Market share (%) of audit firms in Category B in terms of the audit fees paid by listed entities (GEM)



Market concentration on GEM

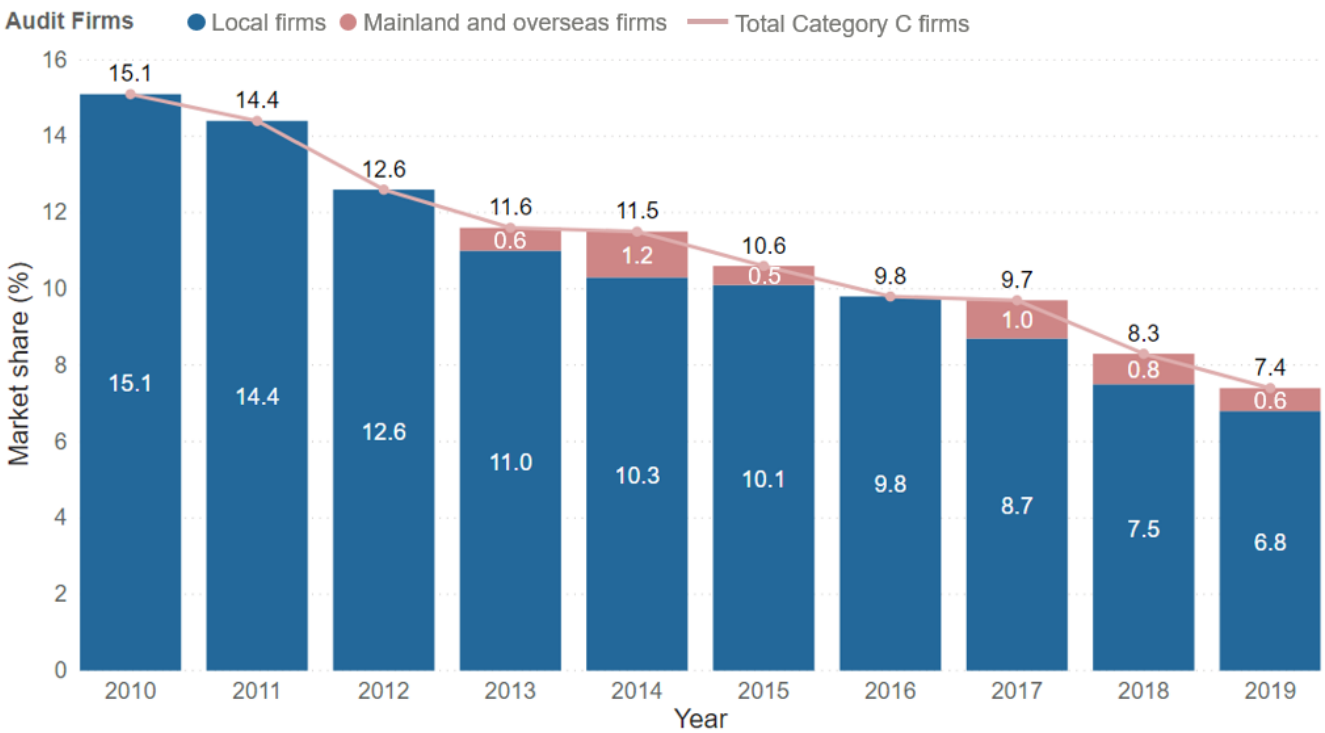
In terms of the audit fees paid by listed entities

Category C

The market share of audit firms in Category C decreased from 15.1% in 2010 to 7.4% in 2019 (Figure 4.17).

The change in their market share in terms of the audit fees paid by listed entities (Figure 4.17) was due to the change in their market share in terms of the number of listed entity audits (Figure 4.13).

Figure 4.17 Market share (%) of audit firms in Category C in terms of the audit fees paid by listed entities (GEM)



Market concentration within industries

Concentration within an industry measures the extent of domination by one or more audit firms in a particular industry. The level of concentration is measured by the market share of audit firms in terms of the number of listed entity audits and audit fees for listed entities in a particular industry.

Over the period, two audit firms in Category A had market shares over 30% in terms of the number of listed entity audits or audit fees in particular industries, as shown in [Figure 4.18](#). These industries generally involve more complex business models and accounting, and some of them are regulated industries.

Figure 4.18 Industries for which two audit firms in Category A had market shares over 30% in terms of the number of listed entity audits or audit fees

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Audit Firm 1											
Energy	Listed entity audits	19.6%	16.1%	15.5%	13.7%	15.1%	12.9%	11.3%	13.5%	11.4%	13.9%
	Audit fees	37.0%	36.8%	29.1%	29.7%	30.6%	29.4%	33.7%	32.2%	29.7%	33.2%
Telecommunications	Listed entity audits	44.4%	44.4%	38.9%	25.0%	23.5%	25.0%	25.0%	26.3%	26.3%	26.7%
	Audit fees	64.8%	63.7%	61.1%	24.8%	24.9%	23.7%	24.6%	25.2%	26.0%	24.8%
Utilities	Listed entity audits	10.3%	14.3%	18.6%	18.6%	19.6%	17.5%	14.8%	13.4%	14.1%	11.8%
	Audit fees	16.0%	19.9%	34.1%	32.1%	30.5%	30.5%	27.0%	26.0%	19.3%	9.9%
Audit Firm 2											
Conglomerates	Listed entity audits	13.6%	14.3%	38.5%	26.7%	30.8%	42.9%	43.8%	40.0%	32.0%	34.6%
	Audit fees	71.0%	70.1%	91.1%	73.2%	68.0%	88.7%	90.0%	89.1%	85.3%	86.3%
Financials – Bank and insurance	Listed entity audits	27.6%	30.0%	29.0%	27.8%	38.9%	39.0%	43.2%	40.4%	40.0%	37.0%
	Audit fees	22.9%	30.9%	30.6%	25.1%	27.7%	27.5%	30.1%	29.5%	29.5%	26.1%
Information technology	Listed entity audits	13.8%	12.4%	11.2%	12.6%	14.7%	14.8%	14.1%	15.5%	16.9%	16.0%
	Audit fees	30.6%	33.1%	29.0%	31.3%	36.6%	37.2%	40.7%	45.4%	57.1%	62.2%
Properties and construction	Listed entity audits	22.3%	20.7%	23.8%	23.5%	21.1%	19.6%	20.7%	18.7%	19.6%	20.0%
	Audit fees	31.6%	31.0%	35.4%	37.4%	31.3%	30.9%	28.1%	30.5%	31.6%	30.5%
Telecommunications	Listed entity audits	27.8%	33.3%	33.3%	37.5%	35.3%	30.0%	30.0%	36.8%	36.8%	46.7%
	Audit fees	33.5%	34.5%	37.0%	50.0%	49.3%	49.9%	50.0%	48.6%	47.8%	50.6%
Utilities	Listed entity audits	28.2%	28.6%	27.9%	27.9%	25.5%	21.1%	21.3%	20.9%	21.1%	21.1%
	Audit fees	46.8%	44.9%	31.6%	32.1%	30.2%	25.3%	24.9%	24.2%	24.9%	25.1%

Greater complexity in business models or accounting may increase the quantum or quality of audit resources needed to focus on the areas with higher audit risk in order to comply with more complex regulatory requirements and maintain audit quality.

Industry specialization may provide competitive advantage in improving audit efficiency or enhancing audit quality. Audit firms with in-depth industry knowledge may spend less time and/or be more effective in understanding the business operations, identifying audit risks and designing and performing audit procedures.

The relationship between industry specialization, audit efficiency and audit quality is one of the interesting areas on which further research and/or studies could be performed.

Potential implications of concentration in the Market

An oligopoly is a market form where the market is dominated by a small group of market participants with individually high market shares.

The Market has been dominated by audit firms in Category A, and can be characterized as an oligopoly.

Typically, in an oligopoly, there are barriers to entry and interdependence between those rival firms that account for the high level of concentration observed.



In the Market, barriers to entry may include, for example, the high cost of entry, if not entry to the market itself (oligopolies usually also accommodate significant numbers of small service providers) then at least entry to the 'top table'. This is because delivering high quality audits of large multinational groups, especially when they have complex business models, involves considerable institutional knowledge and investment to build capability and scale, before benefiting from economies of such scale.

Interdependence means that any change in competitive strategy by one key player is likely to be minimized by others because, if one firm does so successfully it could have significant implications for the market shares of the other significant players. The other side of the same coin is that there may be less incentive to innovate, since no player may see the prospect for a return on the cost.

Technological developments, especially in information technology and communications but also in robotics and artificial intelligence, are driving evolution in business models and information systems of listed entities.

These matters lie at the heart of financial reporting and auditing, and therefore have significant implications for the provision of audit services. Such developments are not only increasing the need for investment by auditors to enhance and maintain their audit capability but are also creating opportunities for the evolution of audit firm business models that drive efficiency and effectiveness in the audit process that could enhance audit quality.

Understanding how the structure of the Market may affect a firm's willingness to make the necessary investment and to compete on quality, is relevant to the FRC's regulatory risk assessments. Competition on price is also of relevance in this context. It may be difficult for a firm not to follow suit in the face of price competition, given interdependence amongst the principal suppliers, if it wishes to maintain its market share. This can pose competing challenges that the firm has to manage between maintaining its market position, its financial stability and the quality of its audit services.

Whilst an oligopolistic market structure is relatively easy to identify, the implications for competition and choice may be more difficult to determine and will be the subject of ongoing research and analysis by the FRC in developing its regulatory risk assessments. The relatively high reliance, at any time, on a small number of service providers and the significance of one individual firm in Category A may also raise questions about the resilience of the market to a failure of one of those providers.

With respect to market resilience, given the level of concentration in the Market, if there was a failure of one of the audit firms in Category A, this could cause significant disruption to the functioning of the capital market in Hong Kong.

Listed entities may face difficulties in appointing a new auditor, at least in the short term, because the remaining audit firms may have difficulty in adapting to take on new audits in the circumstances, for example, they may lack expertise in particular industries or may not be independent due to the provision of non-audit services.

Transitioning audit engagements in these circumstances would also increase audit risks and may ultimately affect audit quality. The FRC will therefore also continue monitoring the risks to audit quality that may result from these resilience vulnerabilities.



5. Audit Fees and Non-Audit Fees

Audit fees by audit firm category

Total audit fees paid by listed entities increased by 82.8% from HK\$6,666 million in 2010 to HK\$12,187 million in 2019, representing a 6.9% compound annual growth rate (Figure 5.1).

The average audit fees per listed entity audit increased from HK\$4.8 million in 2010 to HK\$5.2 million in 2019, representing a compound annual growth rate of 0.9%. The median audit fees per listed entity audit in 2019 was HK\$2 million, with an increase from HK\$1.7 million in 2010 (Figure 5.1).

Figure 5.1: Total, average and median audit fees paid by listed entities

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of listed entity audits	1,386	1,468	1,524	1,621	1,719	1,833	1,930	2,064	2,242	2,328	5.9%
Audit fees (HK\$ million)											
Total	6,666	7,660	8,263	8,666	9,356	9,868	10,212	10,718	11,840	12,187	6.9%
Average	4.8	5.2	5.4	5.3	5.4	5.4	5.3	5.2	5.3	5.2	0.9%
Median	1.7	1.9	1.9	2.0	2.1	2.1	2.1	2.0	2.1	2.0	1.8%

Figure 5.1a: Total, average and median audit fees paid by listed entities (Main Board)

Main Board	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of listed entity audits	1,220	1,302	1,352	1,433	1,522	1,615	1,673	1,751	1,864	1,966	5.4%
Audit fees (HK\$ million)											
Total	6,540	7,528	8,120	8,502	9,182	9,661	9,966	10,407	11,453	11,834	6.8%
Average	5.4	5.8	6.0	5.9	6.0	6.0	6.0	5.9	6.1	6.0	1.3%
Median	1.9	2.2	2.2	2.3	2.4	2.4	2.5	2.5	2.6	2.5	3.1%

Figure 5.1b: Total, average and median audit fees paid by listed entities (GEM)

GEM	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of listed entity audits	166	166	172	188	197	218	257	313	378	362	9.0%
Audit fees (HK\$ million)											
Total	126	132	143	164	174	207	246	311	387	353	12.1%
Average	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0	2.8%
Median	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.8	3.2%

* CAGR refers to compound annual growth rate.

Audit fees by audit firm category

Figures 5.2, 5.3 and 5.4 show the total, average and median audit fees for audit firms in Categories A, B and C, respectively.

- For entities listed on the Main Board, the average audit fees for Category A audit firms was higher than the median (Figure 5.2). There were 13 to 24 listed entities paid higher audit fees than the others, and their audit fees accounted for approximately 25% to 30% of the total audit fees of Category A audit firms from 2010 to 2019.
- For entities listed on GEM, their average audit fees were close to the median (Figures 5.2, 5.3 and 5.4), reflecting a symmetrical distribution of audit fees. The average and median audit fees earned by audit firms in Category A were relatively comparable to that earned by Categories B and C.
- The listed entities audited by Mainland and overseas Category C audit firms included a number of mega-sized entities, and their audit fees were significantly higher than those for listed entities audited by local Category C audit firms (Figure 5.4b).

Figure 5.2: Total, average and median audit fees for all audit firms in Category A

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	4	5	5	5	5	6	6	6	6	6	
Main Board											
Number of listed entity audits	859	969	1,000	1,078	1,155	1,281	1,313	1,363	1,436	1,473	6.2%
Audit fees (HK\$ million)											
Total	5,103	5,767	6,268	6,625	7,336	7,715	8,006	8,357	9,244	9,556	7.2%
Average	5.9	6.0	6.3	6.1	6.4	6.0	6.1	6.1	6.4	6.5	1.0%
Median	2.6	2.6	2.8	2.9	3.0	2.8	2.9	2.9	2.9	2.9	1.2%
GEM											
Number of listed entity audits	31	56	58	66	68	107	137	178	210	183	21.8%
Audit fees (HK\$ million)											
Total	43	60	65	74	73	116	151	200	244	212	19.4%
Average	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	(2.0%)
Median	1.1	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	(1.1%)

* CAGR refers to compound annual growth rate.

Section 5 Audit fees and Non-Audit Fees

Figure 5.3: Total, average and median audit fees for all audit firms in Category B

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	13	10	13	13	12	12	12	11	14	18	
Main Board											
Number of listed entity audits	287	206	236	242	243	220	244	252	306	394	3.6%
Audit fees (HK\$ million)											
Total	370	292	344	339	380	342	390	419	591	828	9.4%
Average	1.3	1.4	1.5	1.4	1.6	1.6	1.6	1.7	1.9	2.1	5.6%
Median	0.9	0.9	0.9	0.9	1.0	1.1	1.1	1.1	1.2	1.2	3.2%
GEM											
Number of listed entity audits	102	77	87	93	99	82	86	98	129	148	4.2%
Audit fees (HK\$ million)											
Total	64	53	60	71	81	69	71	81	111	115	6.7%
Average	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.8	2.4%
Median	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	3.8%

Figure 5.3a: Total, average and median audit fees for local audit firms in Category B

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	13	10	13	13	12	11	11	11	12	14	
Main Board											
Number of listed entity audits	287	206	236	242	243	212	235	252	287	353	2.3%
Audit fees (HK\$ million)											
Total	370	292	344	339	380	328	366	419	503	587	5.3%
Average	1.3	1.4	1.5	1.4	1.6	1.5	1.6	1.7	1.8	1.7	2.9%
Median	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.2	3.2%
GEM											
Number of listed entity audits	102	77	87	93	99	79	83	98	127	143	3.8%
Audit fees (HK\$ million)											
Total	64	53	60	71	81	67	69	81	109	110	6.2%
Average	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.8	2.3%
Median	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	3.8%

Figure 5.3b: Total, average and median audit fees for Mainland and overseas audit firms in Category B

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	-	-	-	-	-	1	1	-	2	4	
Main Board											
Number of listed entity audits	-	-	-	-	-	8	9	-	19	41	50.5%
Audit fees (HK\$ million)											
Total	-	-	-	-	-	14	24	-	88	241	103.7%
Average	-	-	-	-	-	1.8	2.7	-	4.6	5.9	35.4%
Median	-	-	-	-	-	1.6	2.0	-	4.0	3.4	20.7%
GEM											
Number of listed entity audits	-	-	-	-	-	3	3	-	2	5	13.6%
Audit fees (HK\$ million)											
Total	-	-	-	-	-	2	2	-	2	5	25.7%
Average	-	-	-	-	-	0.7	0.7	-	1.0	1.0	10.7%
Median	-	-	-	-	-	0.8	0.8	-	1.0	0.9	3.0%

* CAGR refers to compound annual growth rate.

Section 5 Audit fees and Non-Audit Fees

Figure 5.4: Total, average and median audit fees for all audit firms in Category C

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	49	61	58	54	58	58	54	56	55	48	
Main Board											
Number of listed entity audits	74	127	116	113	124	114	116	136	122	99	3.3%
Audit fees (HK\$ million)											
Total	1,067	1,469	1,508	1,538	1,466	1,604	1,570	1,631	1,618	1,450	3.5%
Average	14.4	11.6	13.0	13.6	11.8	14.1	13.5	12.0	13.3	14.6	0.2%
Median	0.7	1.3	1.5	1.7	1.8	2.0	1.9	1.8	1.6	1.6	9.6%
GEM											
Number of listed entity audits	33	33	27	29	30	29	34	37	39	31	(0.7%)
Audit fees (HK\$ million)											
Total	19	19	18	19	20	22	24	30	32	26	3.5%
Average	0.6	0.6	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.8	4.3%
Median	0.4	0.6	0.6	0.6	0.5	0.6	0.6	0.7	0.8	0.8	8.0%

Figure 5.4a: Total, average and median audit fees for local audit firms in Category C

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	33	35	30	28	30	29	28	27	25	21	
Main Board											
Number of listed entity audits	55	75	55	52	59	53	55	51	46	37	(4.3%)
Audit fees (HK\$ million)											
Total	54	88	61	66	73	72	82	72	67	52	(0.4%)
Average	1.0	1.2	1.1	1.3	1.2	1.4	1.5	1.4	1.5	1.4	4.1%
Median	0.6	0.8	0.7	0.8	0.9	1.0	1.2	1.2	1.1	1.2	8.0%
GEM											
Number of listed entity audits	33	33	27	28	28	28	34	34	35	28	(1.8%)
Audit fees (HK\$ million)											
Total	19	19	18	18	18	21	24	27	29	24	2.6%
Average	0.6	0.6	0.7	0.6	0.6	0.8	0.7	0.8	0.8	0.9	4.5%
Median	0.4	0.6	0.6	0.6	0.5	0.5	0.6	0.7	0.8	0.8	8.0%

Figure 5.4b: Total, average and median audit fees for Mainland and overseas audit firms in Category C

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR*
Number of audit firms	16	26	28	26	28	29	26	29	30	27	
Main Board											
Number of listed entity audits	19	52	61	61	65	61	61	85	76	62	14.0%
Audit fees (HK\$ million)											
Total	1,013	1,381	1,447	1,472	1,393	1,532	1,488	1,559	1,551	1,398	3.6%
Average	53.3	26.6	23.7	24.1	21.4	25.1	24.4	18.3	20.4	22.5	(9.1%)
Median	3.2	3.0	3.4	3.3	3.4	3.8	3.2	2.6	2.8	2.3	(3.6%)
GEM											
Number of listed entity audits	-	-	-	1	2	1	-	3	4	3	20.1%
Audit fees (HK\$ million)											
Total	-	-	-	1	2	1	-	3	3	2	12.2%
Average	-	-	-	1.0	1.0	1.0	-	1.0	0.8	0.7	(6.5%)
Median	-	-	-	1.0	0.9	1.2	-	0.8	0.9	0.7	(5.8%)

* CAGR refers to compound annual growth rate.

Level of audit fees

The average annual audit fees during the period was around HK\$5 million.

Approximately 80% of the number of listed entities paid less than HK\$5 million of audit fees (Figure 5.5). The audit fees paid by these entities accounted for around 26% to 30% of the total audit fees during the period (Figure 5.5a).

Figure 5.5: Number of listed entities segregated by level of their audit fees

Level of audit fees	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Below HK\$5 million (Percentage)	1,167 84.2%	1,205 82.1%	1,234 81.0%	1,310 80.8%	1,360 79.1%	1,473 80.4%	1,562 80.9%	1,679 81.3%	1,815 81.0%	1,898 81.6%
HK\$5 million to HK\$10 million (Percentage)	128 9.2%	146 9.9%	165 10.8%	182 11.2%	208 12.1%	198 10.8%	207 10.7%	219 10.6%	246 11.0%	243 10.4%
Above HK\$10 million to HK\$50 million (Percentage)	72 5.2%	96 6.6%	104 6.8%	106 6.6%	127 7.4%	136 7.4%	134 7.0%	140 6.8%	153 6.8%	159 6.8%
Above HK\$50 million (Percentage)	19 1.4%	21 1.4%	21 1.4%	23 1.4%	24 1.4%	26 1.4%	27 1.4%	26 1.3%	28 1.2%	28 1.2%
Total (Percentage)	1,386 100%	1,468 100%	1,524 100%	1,621 100%	1,719 100%	1,833 100%	1,930 100%	2,064 100%	2,242 100%	2,328 100%

Figure 5.5a: Level of audit fees (in HK\$ million)

Level of audit fees	Audit fees (HK\$ million)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Below HK\$5 million (Percentage)	1,965 29.5%	2,115 27.6%	2,224 26.9%	2,450 28.3%	2,544 27.2%	2,833 28.7%	3,016 29.5%	3,228 30.1%	3,504 29.6%	3,650 29.9%
HK\$5 million to HK\$10 million (Percentage)	872 13.1%	978 12.8%	1,119 13.5%	1,288 14.9%	1,454 15.5%	1,385 14.0%	1,429 14.0%	1,500 14.0%	1,711 14.4%	1,701 14.0%
Above HK\$10 million to HK\$50 million (Percentage)	1,309 19.6%	1,765 23.0%	2,037 24.7%	2,048 23.6%	2,330 24.9%	2,463 25.0%	2,450 24.0%	2,542 23.7%	2,827 23.9%	2,920 24.0%
Above HK\$50 million (Percentage)	2,520 37.8%	2,802 36.6%	2,883 34.9%	2,880 33.2%	3,028 32.4%	3,187 32.3%	3,317 32.5%	3,448 32.2%	3,798 32.1%	3,916 32.1%
Total (Percentage)	6,666 100%	7,660 100%	8,263 100%	8,666 100%	9,356 100%	9,868 100%	10,212 100%	10,718 100%	11,840 100%	12,187 100%

Level of audit fees

Figure 5.6 shows the audit fees paid by the top twenty listed entities ranked by highest audit fees.

These entities accounted for over 28% of the total audit fees (Figure 5.6) and over 34% (Figure 5.6a) of total market capitalization of listed entities over the period.

These listed entities are mega-sized entities with operations in multiple locations. In 2019, amongst these twenty listed entities, 10 of them were in the banking and insurance industries and 11 were either Red chip or H-shares companies (Figure 5.7).

Figure 5.6: Audit fees paid by the top twenty listed entities ranked by highest audit fees

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Audit fees (HK\$ million)	2,563	2,749	2,830	2,712	2,809	2,855	2,915	3,098	3,321	3,450
Percentage of total audit fees	38.4%	35.9%	34.2%	31.3%	30.0%	28.9%	28.5%	28.9%	28.0%	28.3%

Figure 5.6a: Market capitalization of the top twenty listed entities ranked by highest audit fees

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Market capitalization (HK\$ billion)	8,360	8,419	8,670	9,970	9,865	9,050	9,954	11,697	13,073	16,866
Percentage of total market capitalization	41.4%	40.8%	40.9%	40.0%	37.3%	34.6%	38.5%	38.2%	39.1%	45.1%

Figure 5.7: Top twenty listed entities ranked by highest audit fees in 2019

Stock code	Name of listed entity	Audit fees (HK\$ million)	Market capitalization (HK\$ billion)
5	HSBC Holdings Plc	668	1,288
1	CK Hutchison Holdings Limited	246	288
3988	Bank of China Ltd	244	281
1398	Industrial and Commercial Bank of China Ltd	226	503
945	Manulife Financial Corporation	193	269
1299	AIA Group Limited	188	887
9988	Alibaba Group Holding Limited	169	4,447
939	China Construction Bank Corporation	160	1,586
2888	Standard Chartered Plc	144	214
1288	Agricultural Bank of China Limited	143	105
2378	Prudential Plc	136	371
941	China Mobile Ltd	126	1,442
700	Tencent Holdings Ltd	119	3,289
857	Petrochina Company Ltd	118	93
3396	Legend Holdings Corporation	111	24
267	Citic Limited	107	330
2318	Ping An Insurance (Group) Company of China, Ltd	101	600
728	China Telecom Corporation Ltd	92	50
762	China Unicom (Hong Kong) Limited	88	240
883	CNOOC Ltd	71	559



Year-on-year change in audit fees

The audit fees for between 28.2% and 54.4% of the number of listed entities decreased or did not increase for each year. Increases or decreases in audit fees for individual listed entities varied between less than 10% and more than 50%. For listed entities that had an increase in audit fees, the increases averaged 15.2%, and for those that had a decrease, the decreases averaged 12.3% (Figure 5.8).

A more significant number of listed entities increased their audit fees in 2018 than in other years (Figure 5.8). Such an increase may be due to the higher audit fees paid as a result of the adoption of new accounting standards (including IFRS/HKFRS 15 Revenue from Contracts with Customers).

Figure 5.8 Number of listed entities with a decrease, increase or no change in audit fees

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Decrease in audit fees of:	317	374	374	505	600	682	644	406	974
(Percentage)	23.1%	25.7%	24.6%	31.4%	35.1%	37.7%	33.9%	20.0%	44.9%
Less than 10% of audit fees paid in prior year	151	172	169	297	346	399	385	177	520
(Percentage)	11.0%	11.8%	11.1%	18.5%	20.2%	22.0%	20.2%	8.8%	24.0%
10% to 25% of audit fees paid in prior year	87	119	138	125	145	164	171	116	261
(Percentage)	6.3%	8.2%	9.1%	7.8%	8.5%	9.1%	9.0%	5.7%	12.0%
25% to 50% of audit fees paid in prior year	66	62	56	60	90	88	68	86	155
(Percentage)	4.8%	4.3%	3.7%	3.7%	5.3%	4.9%	3.6%	4.2%	7.1%
Above 50% of audit fees paid in prior year	13	21	11	23	19	31	20	27	38
(Percentage)	1.0%	1.4%	0.7%	1.4%	1.1%	1.7%	1.1%	1.3%	1.8%
Increase in audit fees of:	942	924	987	960	975	963	1,095	1,455	990
(Percentage)	68.7%	63.3%	65.0%	59.7%	57.2%	53.1%	57.6%	71.8%	45.6%
Less than 10% of audit fees paid in prior year	409	494	564	531	543	507	620	791	566
(Percentage)	29.8%	33.9%	37.1%	33.0%	31.8%	28.0%	32.6%	39.0%	26.1%
10% to 25% of audit fees paid in prior year	282	245	233	228	222	216	272	399	229
(Percentage)	20.6%	16.8%	15.4%	14.2%	13.0%	11.9%	14.3%	19.7%	10.5%
25% to 50% of audit fees paid in prior year	138	107	106	106	105	131	116	154	123
(Percentage)	10.1%	7.3%	7.0%	6.6%	6.2%	7.2%	6.1%	7.6%	5.7%
Above 50% of audit fees paid in prior year	113	78	84	95	105	109	87	111	72
(Percentage)	8.2%	5.3%	5.5%	5.9%	6.2%	6.0%	4.6%	5.5%	3.3%
No change in audit fees	112	160	158	143	132	167	162	167	205
(Percentage)	8.2%	11.0%	10.4%	8.9%	7.7%	9.2%	8.5%	8.2%	9.5%

Figure 5.9 Decrease and increase in audit fees (in HK\$ million)

	Audit fees (HK\$ million)								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Decrease in audit fees of:	(192)	(263)	(510)	(459)	(454)	(570)	(473)	(367)	(689)
Less than 10% of audit fees paid in prior year	(34)	(56)	(84)	(81)	(87)	(141)	(57)	(35)	(170)
10% to 25% of audit fees paid in prior year	(54)	(90)	(236)	(163)	(98)	(166)	(203)	(84)	(198)
25% to 50% of audit fees paid in prior year	(70)	(84)	(174)	(96)	(162)	(145)	(141)	(156)	(225)
Above 50% of audit fees paid in prior year	(34)	(33)	(16)	(119)	(107)	(118)	(72)	(92)	(96)
Increase in audit fees of:	705	692	640	793	898	727	916	1,043	632
Less than 10% of audit fees paid in prior year	144	121	97	157	123	119	162	205	119
10% to 25% of audit fees paid in prior year	179	148	161	137	145	126	197	392	200
25% to 50% of audit fees paid in prior year	180	146	115	183	101	195	324	206	170
Above 50% of audit fees paid in prior year	202	277	267	316	529	287	233	240	143
Total	513	429	130	334	444	157	443	676	(57)

Audit fees after a change in auditor

In each year, between 6.6% and 9.6% by number of listed entities changed their auditors. Between 52.6% and 75.4% of the number of listed entities paid lower or the same audit fees after a change in auditor (Figure 5.10). Changes in auditor for Hong Kong listed entities are generally voluntary. However, in 2013 changes of auditor were made by 26 listed entities (1.6% by number of listed entities) to comply with new Mainland regulations restricting the maximum length of continuous tenure as auditor of a state-owned enterprise or financial institution. If these changes are excluded, 6.2% by number of listed entities changed their auditors in 2013.

Figure 5.10 Number of listed entities with a decrease, increase or no change in audit fees after a change in auditor

	Number of listed entities								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Decrease in audit fees of:	58	72	63	57	77	98	87	119	162
(Percentage)	54.2%	55.8%	49.6%	50.0%	63.7%	59.1%	59.6%	62.0%	72.3%
Less than 10% of audit fees paid in prior year (Percentage)	16 14.9%	15 11.6%	10 7.9%	20 17.6%	16 13.2%	24 14.5%	29 19.9%	25 13.0%	25 11.2%
10% to 25% of audit fees paid in prior year (Percentage)	16 14.9%	20 15.5%	28 22.0%	18 15.8%	25 20.7%	29 17.5%	27 18.5%	32 16.7%	56 25.0%
25% to 50% of audit fees paid in prior year (Percentage)	20 18.7%	23 17.8%	18 14.2%	12 10.5%	29 24.0%	33 19.9%	24 16.4%	50 26.0%	61 27.2%
Above 50% of audit fees paid in prior year (Percentage)	6 5.7%	14 10.9%	7 5.5%	7 6.1%	7 5.8%	12 7.2%	7 4.8%	12 6.3%	20 8.9%
Increase in audit fees of:	46	54	59	54	39	62	55	66	55
(Percentage)	43.0%	41.9%	46.5%	47.4%	32.2%	37.3%	37.7%	34.4%	24.6%
Less than 10% of audit fees paid in prior year (Percentage)	16 14.9%	13 10.1%	20 15.8%	14 12.3%	8 6.6%	16 9.6%	12 8.2%	19 9.9%	17 7.6%
10% to 25% of audit fees paid in prior year (Percentage)	12 11.2%	11 8.5%	15 11.8%	9 7.9%	2 1.7%	9 5.4%	12 8.2%	15 7.8%	12 5.4%
25% to 50% of audit fees paid in prior year (Percentage)	5 4.7%	11 8.5%	10 7.9%	10 8.8%	5 4.1%	11 6.6%	10 6.9%	12 6.3%	12 5.4%
Above 50% of audit fees paid in prior year (Percentage)	13 12.2%	19 14.8%	14 11.0%	21 18.4%	24 19.8%	26 15.7%	21 14.4%	20 10.4%	14 6.2%
No change in audit fees	3	3	5	3	5	6	4	7	7
(Percentage)	2.8%	2.3%	3.9%	2.6%	4.1%	3.6%	2.7%	3.6%	3.1%
Number of listed entities that changed auditors	107	129	127	114	121	166	146	192	224
(Percentage)	100%	100%	100%	100%	100%	100%	100%	100%	100%
Percentage by number of listed entities that changed auditors	7.3%	8.5%	7.8%	6.6%	6.6%	8.6%	7.1%	8.6%	9.6%

Audit fees after a change in auditor

In those cases, when there was a decrease in audit fees after a change in auditor, the average decrease was 24.9% and when there was an increase, the average increase was 37.4% (Figure 5.11).

In 2013, the unusually high decrease in audit fees is due to the relatively significant decreases in audit fees when there was a change of auditor by listed entities incorporated in the Mainland, to comply with the new Mainland regulations restricting the maximum length of continuous tenure as auditor of a state-owned enterprise or financial institution (Figure 5.11). These changes accounted for HK\$221 million of the net decrease in audit fees after a change in auditor in 2013.

In 2015, one listed entity in the banking industry changed its auditor. The entity's audit fees increased by HK\$166 million after the change. (Figure 5.11).

Figure 5.11 Decrease and increase in audit fees after a change in auditor (in HK\$ million)

	Audit fees (HK\$ million)								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Decrease in audit fees of:	(48)	(53)	(287)	(130)	(113)	(117)	(112)	(96)	(151)
Less than 10% of audit fees paid in prior year	(3)	(5)	(8)	(3)	(1)	(3)	(4)	(3)	(19)
10% to 25% of audit fees paid in prior year	(15)	(14)	(154)	(22)	(17)	(20)	(27)	(20)	(24)
25% to 50% of audit fees paid in prior year	(14)	(16)	(117)	(36)	(74)	(60)	(41)	(49)	(64)
Above 50% of audit fees paid in prior year	(16)	(18)	(8)	(69)	(21)	(34)	(40)	(24)	(44)
Increase in audit fees of:	32	52	62	72	213	69	46	68	31
Less than 10% of audit fees paid in prior year	9	1	6	1	1	2	2	2	2
10% to 25% of audit fees paid in prior year	4	5	15	1	1	3	3	4	3
25% to 50% of audit fees paid in prior year	5	11	27	9	3	4	5	14	10
Above 50% of audit fees paid in prior year	14	35	14	61	208	60	36	48	16
Net increase/(decrease)	(16)	(1)	(225)	(58)	100	(48)	(66)	(28)	(120)

Audit fees after a change in auditor

The decrease in audit fees may be due to various reasons. For example, they may be due to structural changes in the audited entity. Alternatively, some audit firms may undertake an audit with a discounted audit fee, for example, to build a presence in a particular market, to increase the audit firm's revenue, or to secure more valuable non-audit work. Audit fees, commensurate with the audit work required and audit risks involved, are crucial in driving audit quality.

The decrease in audit fees after a change in auditor based on the audit firm category before and after the change is analyzed in [Figures 5.12 and 5.13](#). [Figure 5.12](#) shows listed entities paid lower audit fees after a change in auditor when the audit firm category remained unchanged.

Figure 5.12 Decrease in audit fees after a change in auditor from Category A to Category A (in HK\$ million)

	Audit fees (HK\$ million)								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Decrease in audit fees of:	(20)	(22)	(270)	(36)	(80)	(58)	(69)	(52)	(68)
Less than 10% of audit fees paid in prior year	-	(4)	(7)	(2)	-	(2)	(3)	(1)	(16)
10% to 25% of audit fees paid in prior year	(13)	(7)	(152)	(20)	(12)	(10)	(15)	(14)	(7)
25% to 50% of audit fees paid in prior year	(2)	(3)	(110)	(13)	(61)	(45)	(29)	(26)	(39)
Above 50% of audit fees paid in prior year	(5)	(8)	(1)	(1)	(7)	(1)	(22)	(11)	(6)

Figure 5.13 Decrease in audit fees after a change in auditor from Category A to Category B (in HK\$ million)

	Audit fees (HK\$ million)								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Decrease in audit fees of:	(13)	(12)	(5)	(7)	(22)	(15)	(14)	(28)	(51)
Less than 10% of audit fees paid in prior year	-	-	-	-	-	-	-	-	(2)
10% to 25% of audit fees paid in prior year	(1)	(1)	-	(1)	(3)	(4)	(5)	(5)	(9)
25% to 50% of audit fees paid in prior year	(3)	(6)	(2)	(2)	(6)	(8)	(8)	(11)	(18)
Above 50% of audit fees paid in prior year	(9)	(5)	(3)	(4)	(13)	(3)	(1)	(12)	(22)

In current economic conditions, auditors continue to face challenging judgments in audit, including about whether the listed entity is a going concern and whether assets are impaired. As a result of such factors, more resources may need to be spent on audits. Changes in the listed entity's business or the regulatory requirements may also warrant increases in audit fees.

The board of directors and audit committees play an important role in determining an appropriate and reasonable level of audit fees. Audit fees may be affected by, among other factors, the size of the listed entities, the complexity of the listed entity's business, and the level of expertise required to carry out the audit. However, they will also reflect market conditions, including fair competition.

Most importantly, the auditors should ensure that the audit fees are adequate to enable them to deploy sufficient time and resources to perform the audit work. This is an area of significant relevance to the FRC and will continue to be an area of focus in our inspection work and one where we will continue to consider the need for further policy action based on the outcome of their work.

In agreeing a reasonable level of fees, the board of directors and audit committee will need to weigh many factors and will need to be satisfied that the auditor will allocate sufficient resources to ensure that audit quality is not compromised.

Ratio of non-audit fees to audit fees

Non-audit fees as compared to audit fees is an area of significant relevance for the FRC in assessing regulatory risks. If an auditor receives a large amount of fees from a listed entity for performing non-audit engagements relative to the size of the audit fees, it may create threats to the auditor's independence or objectivity, which could undermine the auditor's professional scepticism and professional judgment in performing the audit of the listed entity. The FRC does not just consider the size of non-audit fees but also the nature of the non-audit services provided and this will be an area of continuing policy research.

Non-audit fees are the fees paid by listed entities to their auditors for non-audit services. The ratio of non-audit fees to audit fees paid by listed entities during the period was between 24.6% and 29.0% (Figure 5.14).

Non-audit fees as a percentage of the audit fees for Mainland and overseas audit firms, in particular those in Category C, (Figure 5.16) was relatively higher than for local audit firms until 2018 (Figure 5.15). This mainly reflects the fact that a significant proportion of the audit and non-audit fees of overseas firms relates to a small number of mega-sized UK incorporated entities listed in Hong Kong.

Figure 5.14 Ratio of non-audit fees to audit fees (in percentage)

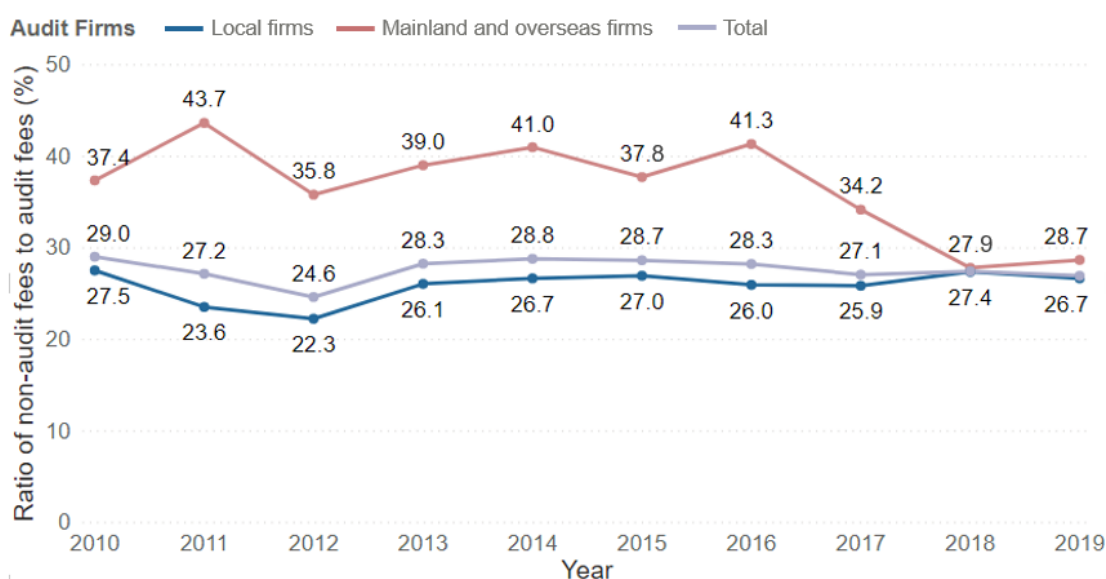


Figure 5.15 Ratio of non-audit fees to audit fees of local audit firms (in percentage)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Category A	28.0%	23.6%	22.3%	26.2%	26.8%	26.9%	26.1%	25.9%	27.8%	27.1%
Category B	22.4%	22.0%	22.5%	26.3%	26.0%	29.6%	25.5%	25.4%	22.7%	22.5%
Category C	28.8%	26.2%	19.0%	13.1%	18.7%	23.7%	20.8%	22.2%	16.7%	10.5%

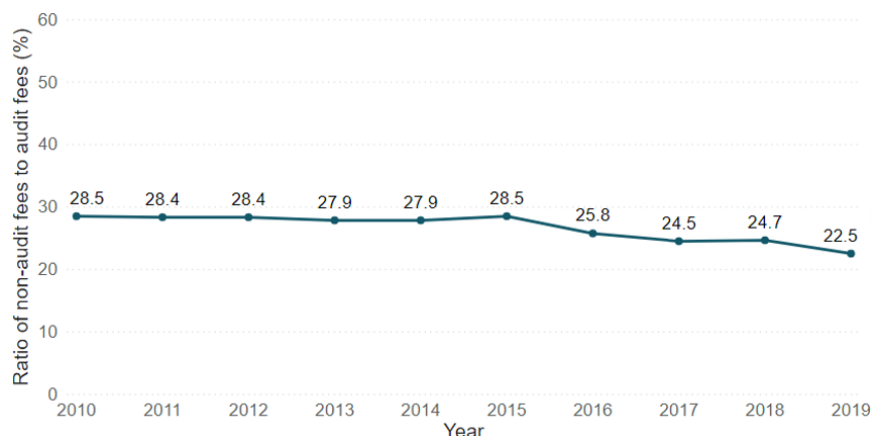
Figure 5.16 Ratio of non-audit fees to audit fees of Mainland and overseas audit firms (in percentage)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Category B	-	-	-	-	-	18.8%	26.9%	-	31.1%	24.8%
Category C	37.4%	43.7%	35.8%	39.0%	41.0%	38.0%	41.6%	34.2%	27.7%	29.4%

Ratio of non-audit fees to audit fees

Figures 5.17 and 5.18 show the ratios of non-audit fees to audit fees for the audit markets in the United States of America (US Market) and the United Kingdom (UK Market). It is noted that the ratio of the Market in Hong Kong was similar to the US Market and lower than the UK Market.

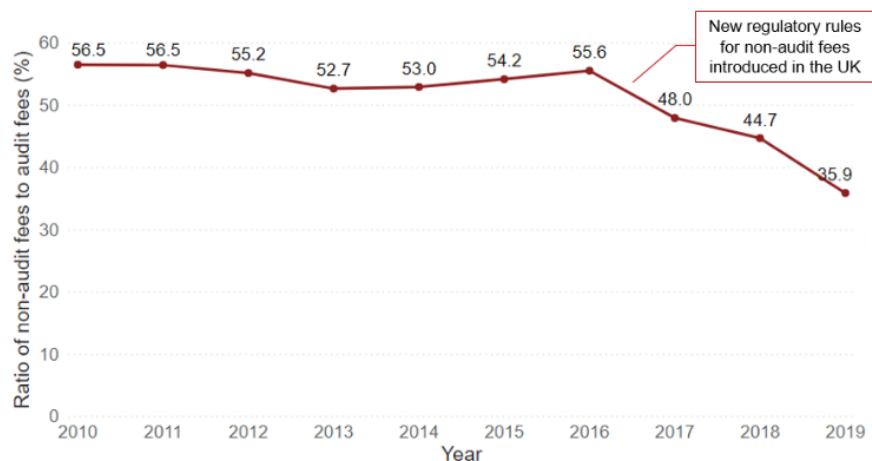
Figure 5.17 Ratio of non-audit fees to audit fees of SEC registrants (in percentage)



The information is based on the article of “Eighteen Year Review of Audit Fee & Non-Audit Fee Trends” published by Audit Analytics in November 2020.

(Reference:
<https://blog.auditanalytics.com/eighteen-year-review-of-audit-non-audit-fee-trends/>)

Figure 5.18 Ratio of non-audit fees to audit fees of audit firms in the United Kingdom with PIE Audit Clients (in percentage)



The information is based on “Key Facts and Trends in the Accountancy Profession” published by the UK FRC from 2010 to 2019.

(Reference:
<https://frc.org.uk/auditors/professional-oversight/key-facts-and-trends-in-the-accountancy-profession>)



6. Methodology



The sources of statistical information over the past ten years from 2010 to 2019 included in this Report are as follows:

- The population of listed entity audits is based on the list of listed companies in the Fact Books from 2010 to 2019 published by the HKEX excluding the listed entities where no annual reports were issued in the year;
- The audit firms are the auditors, who are responsible for the audit of group financial statements of the listed entities and the preparation of the auditor's reports included in the annual reports of the listed entities;
- The audit fees and non-audit fees of the listed entities are based on the corporate governance reports included in the annual reports of the listed entities⁴; and
- The industry classification of the listed entities refers to the Hang Seng Industry Classification provided by Hang Seng Indexes Company Limited. The primary parameter of industry classification is the sales revenue from each business area of a listed entity. Profit or assets will also be taken into consideration where these better reflect the entity's business⁵.

The statistical information provided in this Report is classified and presented based on the methodology set out below. This may assist users of this information in comparing it with information provided in other publications that has been prepared on a different basis.

- Determination of financial year**

Financial years ending in January through May are assigned to the year in which the financial period begins. Financial years ending in June through December are assigned to the year in which the financial period ends⁶. For example, if a listed entity's financial year-end is March 2020, the statistical information of that listed entity will be classified as the 2019 statistical information.
- Audit firm category**

Audit firms are segregated into the following three categories based on the number of listed entities that they perform audits in the year.

Audit firm category	Number of listed entities that audit firms perform audits
Category A	100 or more
Category B	10 to 99
Category C	At least one and less than 10

- Local audit firm**

An audit firm that is registered with the HKICPA.
- Mainland audit firm**

The 11 Mainland accounting firms approved by the MOF and the CSRC eligible for acting as reporting accountants and/or auditors of Mainland incorporated companies listed in Hong Kong.
- Overseas audit firm**

An audit firm, other than the local and Mainland audit firms, that is registered with or a member of an accountancy/an audit regulatory body outside Hong Kong.
- Market capitalization**

It refers to the average of the market capitalization of the listed entities as at 1 January and 31 December of the year.
- Presentation currency**

This Report is presented in Hong Kong Dollar ("HK\$") unless otherwise stated.

⁴ Appendices 14 and 15 of the Main Board Listing Rules and GEM Listing Rules require a listed entity to disclose in its annual report of an analysis of remuneration in respect of audit fees and non-audit fees provided by the audit firm and its member firms which include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally to the listed entity.

⁵ The parameter of industry classification is based on Hang Seng Industry Classification System provided in the webpage of Hang Seng Indexes (<https://www.hsi.com.hk/eng/our-services/hsics>).

⁶ The methodology to determine the financial year is with reference to Standard & Poor's Research Insight – Getting Started (Reference: <http://web.mnstate.edu/sahin/Research%20Insight%20User%20Guide%202002.pdf>).

7. Glossary

This glossary provides definitions of the acronyms, abbreviations and key terms used in this Report:

Audit firms	Audit firms responsible for the audit of listed entities
Audit services	Audit services mainly comprise the audit of the financial statements of the listed entities.
CSRC	China Securities Regulatory Commission
Exchange	The Stock Exchange of Hong Kong Limited
FRC	Financial Reporting Council of Hong Kong
GEM	GEM is a market with lower listing eligibility criteria but similar continuing obligations compared to the Main Board, serving the needs of small and mid-sized listed entities.
H-share companies	Companies that are incorporated in Mainland China and their listings in Hong Kong are approved by the CSRC.
Hang Seng Index (HSI) Constituents	Hang Seng Index Constituents usually consist of the 50 largest listed entities in Hong Kong (including 49 listed companies and a real estate investment trust listed on the Main Board), determined mainly based on the market capitalization of the listed entities.
HKEX	Hong Kong Exchanges and Clearing Limited
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
IFRS	International Financial Reporting Standards
Listed entities	Entities listed on the Main Board or GEM

Listing Rules	Listing Rules refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited, approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap 571), and as in force at the material time.
Main Board	Main Board is the market for more established entities that satisfy the financial and track record requirements under the Listing Rules.
MOF	Ministry of Finance of the People's Republic of China
Market	Market for listed entity audits in Hong Kong
Non-audit services	Non-audit services comprise any professional services in which audit firms provide to listed entities other than audit services.
Red chip companies	Companies that are incorporated outside of Mainland China and controlled by the government of the People's Republic of China
Regulation (EU) No 537/2014	Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC
SEC	Securities and Exchange Commission of the United States of America
UK FRC	Financial Reporting Council of the United Kingdom



8. Data Tables

Section 8 Data Tables

Figure 8.1 Descriptive Statistics - Fees (audit fees, non-audit fees and total fees) and market capitalization of the listed entities segregated by audit firm category from 2010 to 2019

	Category A							Category B						
	N *	Total	Mean	SD *	Min	Median	Max	N *	Total	Mean	SD *	Min	Median	Max
2010														
Audit fee (HK\$ million)	890	5,146	5.8	16.3	0.2	2.5	244.3	389	434	1.1	1.4	0.1	0.8	13.9
Non-audit fee (HK\$ million)	890	1,439	1.6	6.8	-	0.4	173.2	389	97	0.2	0.4	-	0.1	3.0
Total fee (HK\$ million)	890	6,585	7.4	20.4	0.4	3.2	322.3	389	531	1.4	1.6	0.1	1.0	16.5
Market cap (HK\$ billion)	890	16,635	18.7	85.8	0.1	2.9	1,587.2	389	749	1.9	6.7	0.1	0.6	109.2
2011														
Audit fee (HK\$ million)	1,025	5,827	5.7	16.1	0.1	2.5	259.0	283	345	1.2	1.8	0.1	0.8	16.6
Non-audit fee (HK\$ million)	1,025	1,375	1.3	4.0	-	0.4	70.0	283	76	0.3	0.5	-	0.1	3.8
Total fee (HK\$ million)	1,025	7,202	7.0	18.1	0.2	3.1	268.6	283	421	1.5	1.9	0.1	1.0	16.6
Market cap (HK\$ billion)	1,025	16,708	16.3	79.0	0.1	2.2	1,536.2	283	488	1.7	7.7	0.1	0.5	121.6
2012														
Audit fee (HK\$ million)	1,058	6,333	6.0	16.6	0.1	2.6	254.5	323	404	1.3	1.7	0.1	0.9	19.2
Non-audit fee (HK\$ million)	1,058	1,412	1.3	3.2	-	0.4	39.5	323	91	0.3	0.5	-	0.1	5.6
Total fee (HK\$ million)	1,058	7,745	7.3	18.7	0.3	3.2	280.3	323	495	1.5	1.9	0.1	1.1	19.2
Market cap (HK\$ billion)	1,058	16,897	16.0	79.1	0.1	1.8	1,668.7	323	545	1.7	7.9	0.1	0.4	126.2
2013														
Audit fee (HK\$ million)	1,144	6,699	5.9	14.7	0.2	2.7	214.5	335	410	1.2	1.5	0.2	0.9	15.5
Non-audit fee (HK\$ million)	1,144	1,757	1.5	3.4	-	0.5	44.0	335	108	0.3	0.5	-	0.1	4.2
Total fee (HK\$ million)	1,144	8,456	7.4	17.0	0.3	3.5	245.7	335	518	1.5	1.7	0.2	1.1	15.5
Market cap (HK\$ billion)	1,144	19,982	17.5	82.2	0.1	2.2	1,715.1	335	637	1.9	8.1	0.1	0.5	122.9
2014														
Audit fee (HK\$ million)	1,223	7,409	6.1	16.0	0.2	2.8	279.0	342	461	1.3	2.7	0.2	0.9	42.9
Non-audit fee (HK\$ million)	1,223	1,987	1.6	3.8	-	0.5	40.6	342	120	0.4	0.6	-	0.2	5.5
Total fee (HK\$ million)	1,223	9,396	7.7	18.6	0.3	3.5	312.0	342	581	1.7	2.9	0.2	1.1	44.6
Market cap (HK\$ billion)	1,223	21,559	17.6	82.7	0.1	2.4	1,731.0	342	680	2.0	7.7	0.1	0.6	112.3
2015														
Audit fee (HK\$ million)	1,388	7,831	5.6	14.2	0.2	2.6	244.6	302	411	1.4	1.8	0.2	0.9	17.3
Non-audit fee (HK\$ million)	1,388	2,104	1.5	4.0	-	0.5	56.0	302	120	0.4	0.9	-	0.2	10.3
Total fee (HK\$ million)	1,388	9,935	7.2	17.0	0.2	3.3	293.0	302	531	1.8	2.2	0.2	1.2	22.0
Market cap (HK\$ billion)	1,388	22,021	15.9	80.0	0.1	2.3	1,818.7	302	711	2.4	6.9	0.1	0.8	80.6
2016														
Audit fee (HK\$ million)	1,450	8,157	5.6	14.4	0.2	2.7	232.6	330	461	1.4	1.7	0.2	1.0	17.9
Non-audit fee (HK\$ million)	1,450	2,126	1.5	3.5	-	0.4	54.9	330	118	0.4	0.6	-	0.2	5.0
Total fee (HK\$ million)	1,450	10,283	7.1	17.0	0.2	3.3	287.5	330	579	1.8	2.0	0.2	1.2	17.9
Market cap (HK\$ billion)	1,450	22,135	15.3	80.6	0.1	2.1	1,737.3	330	740	2.2	6.0	0.1	0.8	57.4
2017														
Audit fee (HK\$ million)	1,541	8,557	5.6	14.4	0.2	2.6	231.9	350	500	1.4	1.6	0.2	1.0	18.1
Non-audit fee (HK\$ million)	1,541	2,220	1.4	3.5	-	0.4	50.3	350	127	0.4	0.5	-	0.2	4.3
Total fee (HK\$ million)	1,541	10,777	7.0	17.0	0.2	3.2	282.2	350	627	1.8	1.8	0.2	1.3	18.1
Market cap (HK\$ billion)	1,541	26,517	17.2	101.6	0.1	1.9	2,827.2	350	947	2.7	10.7	0.1	0.7	154.5
2018														
Audit fee (HK\$ million)	1,646	9,488	5.8	15.3	0.1	2.6	258.6	435	702	1.6	1.9	0.2	1.1	18.1
Non-audit fee (HK\$ million)	1,646	2,637	1.6	4.6	-	0.4	91.2	435	167	0.4	0.7	-	0.2	8.4
Total fee (HK\$ million)	1,646	12,125	7.4	18.8	0.1	3.3	318.0	435	869	2.0	2.3	0.2	1.3	18.1
Market cap (HK\$ billion)	1,646	29,342	17.8	111.3	0.1	1.7	3,423.0	435	1,072	2.5	10.7	0.1	0.6	183.5
2019														
Audit fee (HK\$ million)	1,656	9,768	5.9	16.1	0.2	2.7	246.0	542	943	1.7	2.6	0.2	1.0	28.8
Non-audit fee (HK\$ million)	1,656	2,648	1.6	4.7	-	0.4	104.0	542	218	0.4	0.8	-	0.1	7.1
Total fee (HK\$ million)	1,656	12,416	7.5	19.2	0.3	3.3	295.4	542	1,161	2.1	3.1	0.2	1.3	32.4
Market cap (HK\$ billion)	1,656	33,693	20.3	153.2	0.1	1.5	4,446.9	542	1,146	2.1	7.8	0.1	0.4	131.8

* N refers to the number of listed entities.

* SD refers to the standard deviation.

Section 8 Data Tables

	Category C							Total						
	N *	Total	Mean	SD *	Min	Median	Max	N *	Total	Mean	SD *	Min	Median	Max
2010														
Audit fee (HK\$ million)	107	1,086	10.1	44.6	0.1	0.6	381.3	1,386	6,666	4.8	18.2	0.1	1.7	381.3
Non-audit fee (HK\$ million)	107	400	3.7	23.6	-	0.1	226.8	1,386	1,936	1.4	8.6	-	0.2	226.8
Total fee (HK\$ million)	107	1,486	13.9	66.4	0.1	0.7	608.1	1,386	8,602	6.2	24.9	0.1	2.3	608.1
Market cap (HK\$ billion)	107	2,807	26.2	151.8	0.1	0.6	1,482.9	1,386	20,191	14.6	81.1	0.1	1.4	1,587.2
2011														
Audit fee (HK\$ million)	160	1,488	9.3	38.8	0.2	0.9	379.9	1,468	7,660	5.2	18.7	0.1	1.9	379.9
Non-audit fee (HK\$ million)	160	631	3.9	26.3	-	0.1	298.1	1,468	2,082	1.4	9.4	-	0.2	298.1
Total fee (HK\$ million)	160	2,119	13.2	62.5	0.2	1.2	678.0	1,468	9,742	6.6	25.8	0.1	2.4	678.0
Market cap (HK\$ billion)	160	3,432	21.5	110.7	0.1	0.7	1,231.9	1,468	20,628	14.1	75.8	0.1	1.3	1,536.2
2012														
Audit fee (HK\$ million)	143	1,526	10.7	40.2	0.1	1.2	366.1	1,524	8,263	5.4	18.7	0.1	1.9	366.1
Non-audit fee (HK\$ million)	143	533	3.7	23.8	-	0.1	258.3	1,524	2,036	1.3	7.8	-	0.3	258.3
Total fee (HK\$ million)	143	2,059	14.4	61.8	0.2	1.4	624.4	1,524	10,299	6.8	24.8	0.1	2.5	624.4
Market cap (HK\$ billion)	143	3,747	26.2	125.2	0.1	0.5	1,278.1	1,524	21,189	13.9	76.7	0.1	1.1	1,668.7
2013														
Audit fee (HK\$ million)	142	1,557	11.0	41.3	0.1	1.2	336.6	1,621	8,666	5.3	17.6	0.1	2.0	336.6
Non-audit fee (HK\$ million)	142	586	4.1	26.9	-	0.1	287.0	1,621	2,451	1.5	8.5	-	0.3	287.0
Total fee (HK\$ million)	142	2,143	15.1	66.0	0.1	1.4	623.6	1,621	11,117	6.9	24.5	0.1	2.5	623.6
Market cap (HK\$ billion)	142	4,281	30.1	147.4	0.1	0.7	1,543.2	1,621	24,900	15.4	82.1	0.1	1.3	1,715.1
2014														
Audit fee (HK\$ million)	154	1,486	9.6	36.2	0.2	1.3	314.8	1,719	9,356	5.4	17.5	0.2	2.1	314.8
Non-audit fee (HK\$ million)	154	589	3.8	24.0	-	0.1	273.7	1,719	2,696	1.6	7.9	-	0.3	273.7
Total fee (HK\$ million)	154	2,075	13.5	58.3	0.2	1.6	588.5	1,719	12,052	7.0	23.7	0.2	2.7	588.5
Market cap (HK\$ billion)	154	4,178	27.1	138.3	0.1	0.9	1,503.3	1,719	26,417	15.4	81.5	0.1	1.6	1,731.0
2015														
Audit fee (HK\$ million)	143	1,626	11.4	47.5	0.2	1.4	480.6	1,833	9,868	5.4	18.3	0.2	2.1	480.6
Non-audit fee (HK\$ million)	143	604	4.2	25.0	-	0.2	280.6	1,833	2,828	1.5	7.9	-	0.3	280.6
Total fee (HK\$ million)	143	2,230	15.6	71.4	0.2	1.7	761.2	1,833	12,696	6.9	25.1	0.2	2.7	761.2
Market cap (HK\$ billion)	143	3,418	23.9	122.6	0.1	1.0	1,320.2	1,833	26,150	14.3	77.8	0.1	1.7	1,818.7
2016														
Audit fee (HK\$ million)	150	1,594	10.6	47.8	0.2	1.3	510.0	1,930	10,212	5.3	18.4	0.2	2.1	510.0
Non-audit fee (HK\$ million)	150	641	4.3	29.8	-	0.2	352.4	1,930	2,885	1.5	8.9	-	0.4	352.4
Total fee (HK\$ million)	150	2,235	14.9	76.3	0.2	1.6	864.2	1,930	13,097	6.8	26.1	0.2	2.7	862.4
Market cap (HK\$ billion)	150	3,010	20.1	111.1	0.1	1.3	1,237.7	1,930	25,885	13.4	76.6	0.1	1.7	1,737.3
2017														
Audit fee (HK\$ million)	173	1,661	9.6	53.9	0.2	1.4	660.8	2,064	10,718	5.2	20.1	0.2	2.0	660.8
Non-audit fee (HK\$ million)	173	556	3.2	26.8	-	0.2	349.9	2,064	2,903	1.4	8.4	-	0.3	349.9
Total fee (HK\$ million)	173	2,217	12.8	79.9	0.2	1.8	1,010.7	2,064	13,621	6.6	27.5	0.2	2.7	1,010.7
Market cap (HK\$ billion)	173	3,148	18.2	117.5	0.1	0.9	1,440.7	2,064	30,612	14.8	94.4	0.1	1.5	2,827.2
2018														
Audit fee (HK\$ million)	161	1,650	10.2	57.6	0.2	1.4	678.7	2,242	11,840	5.3	20.4	0.1	2.1	678.7
Non-audit fee (HK\$ million)	161	446	2.8	20.8	-	0.1	257.9	2,242	3,250	1.4	6.9	-	0.3	257.9
Total fee (HK\$ million)	161	2,096	13.0	77.7	0.2	1.8	936.6	2,242	15,090	6.7	26.5	0.1	2.7	936.6
Market cap (HK\$ billion)	161	2,990	18.6	123.3	0.1	0.6	1,472.0	2,242	33,404	14.9	101.2	0.1	1.2	3,423.0
2019														
Audit fee (HK\$ million)	130	1,476	11.4	62.6	0.2	1.2	667.5	2,328	12,187	5.2	20.3	0.2	2.0	667.5
Non-audit fee (HK\$ million)	130	419	3.2	20.3	-	0.1	199.8	2,328	3,285	1.4	6.2	-	0.3	199.8
Total fee (HK\$ million)	130	1,895	14.6	81.8	0.2	1.5	867.3	2,328	15,472	6.6	25.5	0.2	2.6	867.3
Market cap (HK\$ billion)	130	2,545	19.6	120.2	0.1	0.5	1,287.6	2,328	37,384	16.1	132.6	0.1	1.0	4,446.9

Section 8 Data Tables

Figure 8.2 Level of audit fees segregated by size of assets of listed entities across eleven industries in 2019

2019												
Size of assets of the listed entities	Category A				Category B				Category C			
	Audit fees (HK\$ thousand)				Audit fees (HK\$ thousand)				Audit fees (HK\$ thousand)			
	N	Q ₁ *	Median	Q ₃ *	N	Q ₁ *	Median	Q ₃ *	N	Q ₁ *	Median	Q ₃ *
Conglomerates												
Below HK\$1,600 million	2	1,800	1,921	2,042	4	650	833	1,058	1	830	830	830
HK\$1,600 million to HK\$16,000 million	5	1,783	2,346	2,500	1	1,650	1,650	1,650	-	-	-	-
HK\$16,000 million to HK\$70,000 million	6	6,560	8,086	9,400	1	3,404	3,404	3,404	-	-	-	-
Above HK\$70,000 million	6	18,300	35,107	107,000	-	-	-	-	-	-	-	-
Consumer-related												
Below HK\$365 million	96	734	1,000	1,355	70	500	700	900	14	520	827	1,051
HK\$365 million to HK\$1,389 million	120	1,157	1,680	2,300	53	851	1,200	1,545	7	835	1,149	2,000
HK\$1,389 million to HK\$6,100 million	151	2,119	2,837	3,687	25	1,070	1,550	2,200	4	1,225	1,861	2,657
Above HK\$6,100 million	157	3,882	5,700	9,950	13	2,042	3,381	3,971	10	2,500	7,303	15,021
Energy												
Below HK\$1,000 million	6	1,300	1,437	2,400	8	555	760	1,155	4	500	836	1,359
HK\$1,000 million to HK\$4,500 million	14	1,208	2,743	3,858	3	752	850	2,200	1	1,570	1,570	1,570
HK\$4,500 million to HK\$13,000 million	11	2,380	3,381	5,219	7	1,246	2,400	2,550	-	-	-	-
Above HK\$13,000 million	12	4,301	8,212	35,717	4	4,394	6,609	9,502	2	4,198	5,855	7,512
Financials												
Below HK\$740 million	27	560	1,078	1,670	27	320	610	750	1	970	970	970
HK\$740 million to HK\$5,735 million	30	1,200	1,623	2,709	20	803	1,005	1,340	5	1,300	1,550	1,645
HK\$5,735 million to HK\$297,000 million	48	2,625	3,764	7,608	7	1,600	2,080	3,585	-	-	-	-
Above HK\$297,000 million	49	5,106	9,848	29,852	2	2,065	2,905	3,744	4	140,247	168,639	430,328
Healthcare												
Below HK\$850 million	18	873	1,350	1,775	13	747	880	1,100	3	689	700	779
HK\$850 million to HK\$2,280 million	24	2,021	2,232	3,428	7	730	1,659	2,099	3	356	794	2,281
HK\$2,280 million to HK\$8,000 million	29	2,156	2,789	4,074	4	802	1,020	2,397	1	2,950	2,950	2,950
Above HK\$8,000 million	31	3,574	5,544	9,914	-	-	-	-	2	1,861	2,388	2,915
Industrials												
Below HK\$515 million	42	880	1,122	1,600	22	511	700	851	5	800	950	1,160
HK\$515 million to HK\$1,830 million	33	1,300	1,691	2,108	28	950	1,129	1,550	7	820	1,200	1,430
HK\$1,830 million to HK\$10,900 million	50	1,785	2,416	3,276	10	964	1,580	2,695	8	1,209	2,326	2,917
Above HK\$10,900 million	46	3,202	3,986	8,680	16	3,052	4,300	6,836	6	2,496	2,695	2,893
Information technology												
Below HK\$260 million	21	700	800	1,000	28	554	654	778	4	620	840	985
HK\$260 million to HK\$900 million	35	1,100	1,550	2,666	17	683	900	1,452	1	1,100	1,100	1,100
HK\$900 million to HK\$4,000 million	35	1,702	2,296	2,950	14	1,000	1,759	3,580	4	1,003	1,196	1,659
Above HK\$4,000 million	44	2,737	5,395	10,553	6	2,480	2,985	3,488	3	1,135	1,838	5,696
Materials												
Below HK\$770 million	17	900	1,305	1,505	14	553	840	1,250	3	1,250	1,398	1,450
HK\$770 million to HK\$2,752 million	24	1,723	2,005	2,889	5	1,040	1,300	1,400	5	850	1,011	1,200
HK\$2,752 million to HK\$11,700 million	24	1,875	3,061	3,791	9	1,362	1,652	2,580	1	2,723	2,723	2,723
Above HK\$11,700 million	21	3,744	5,579	9,758	9	2,799	4,765	4,879	3	2,837	4,527	50,928
Properties and construction												
Below HK\$490 million	64	755	1,090	1,434	42	540	790	893	5	420	500	919
HK\$490 million to HK\$4,300 million	81	1,257	1,600	2,439	23	885	1,100	1,588	7	844	900	1,300
HK\$4,300 million to HK\$31,000 million	101	2,009	2,803	3,819	10	660	1,425	2,020	-	-	-	-
Above HK\$31,000 million	101	4,609	6,616	10,858	8	7,035	9,928	17,161	2	5,451	9,420	13,389
Telecommunications												
Below HK\$5,000 million	1	1,318	1,318	1,318	3	560	1,097	2,065	-	-	-	-
HK\$5,000 million to HK\$20,000 million	4	2,027	3,759	5,940	-	-	-	-	-	-	-	-
HK\$20,000 million to HK\$100,000 million	3	5,665	15,000	32,000	-	-	-	-	-	-	-	-
Above HK\$100,000 million	4	49,349	90,228	109,183	-	-	-	-	-	-	-	-
Utilities												
Below HK\$3,500 million	13	1,477	1,560	2,326	4	967	1,167	1,290	2	750	951	1,151
HK\$3,500 million to HK\$21,150 million	16	2,490	3,060	3,858	2	1,800	2,300	2,800	1	3,063	3,063	3,063
HK\$21,150 million to HK\$92,000 million	17	4,495	7,450	8,660	1	7,207	7,207	7,207	1	680	680	680
Above HK\$92,000 million	17	7,280	10,200	12,900	2	10,688	13,298	15,907	-	-	-	-

Q1 refers to the first quartile.

Q3 refers to the third quartile.