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Technical Bulletin

Implementation Guidance on Revised Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 400 Comfort Letters and Due Diligence Meetings

* This Technical Bulletin is revised in September 2022 to provide guidance to assist reporting accountants to determine whether an engagement in accordance with HKSIR 400 (Revised) is appropriate with respect to an issuer's transaction.

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Hong Kong Institute of
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HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

TECHNICAL BULLETIN

IMPLEMENTATION GUIDANCE ON REVISED HONG KONG STANDARD ON INVESTMENT CIRCULAR REPORTING ENGAGEMENTS (HKSIR) 400 COMFORT LETTERS AND DUE DILIGENCE MEETINGS

~~(Issued March 2013; Revised October 2018; May 2020; September 2022)~~

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INTRODUCTION

1. On 28 October 2011, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") published the revised HKSIR 400 "Comfort Letters and Due Diligence Meetings" ("HKSIR 400 (Revised)"). The revisions were effective for investment circulars or other offering documents dated on or after 1 January 2012. HKSIR 400 was then revised again in December 2012, primarily to update the comfort letter examples. The December 2012 revisions were effective upon issuance. Among other changes, HKSIR 400 (Revised) provides that limited (negative) assurance can now be given by reporting accountants in a comfort letter in respect of subsequent changes in specified financial statement items during the "change period". In addition, HKSIR 400 (Revised) clarifies that reporting accountants should follow HKSIR 400 (Revised) when they are requested to issue a comfort letter for debt offerings. On 29 December 2016, HKSIR 400 (Revised) was further revised to include guidance regarding oral due diligence and the key revisions are set out in Appendices 5A and 5B. The revisions made are effective upon issuance.

2. With the issue of HKSIR 400 (Revised), certain practical issues have arisen in respect of the implementation of the revised standard. This Technical Bulletin is intended to address, and provide practical guidance on, a few of those issues and serve as a reminder of certain basic principles that reporting accountants (including independent accountants reporting in connection with a debt offering) should keep in mind when conducting their engagements to issue a comfort letter or to take part in a due diligence meeting. Terms used in this Technical Bulletin have the same definitions as those in HKSIR 400 (Revised) unless otherwise specified.

ENGAGEMENT ACCEPTANCE

3. In general, reporting accountants would only accept an engagement to issue comfort letters in connection with an investment circular under HKSIR 400 (Revised) to a requesting party when:

   a) The requesting party is subject to due diligence obligations or has due diligence defenses (in each case under applicable laws, rules or regulations) or it is an underwriter or a broker- dealer or other financial intermediary in connection with or contemplated for an offering in Hong Kong and/ or international offerings in reliance on Regulation S, as applicable; and

   b) The requesting party is willing to enter into an arrangement letter under HKSIR 400 (Revised) (including a confirmation that it will perform due diligence procedures under a recognized due diligence framework).

4. In ~~the situation~~situations where a requesting party does not meet the above criteria or the financial information on which the reporting accountants would perform procedures is disclosed outside an investment circular, reporting accountants may agree to provide a report based on agreed-upon procedures ("AUP") depending on facts and circumstances. Reporting accountants should follow HKSRS 4400 (Revised), *Agreed-Upon Procedures Engagements* when they are requested to provide an AUP report. Further guidance and an illustrative AUP report are provided in Appendices 1 and 2 to this Technical Bulletin.

5. The table set out in Appendix 3 to this Technical Bulletin summarizes the type of letter or report that reporting accountants may provide under different types of transactions~~.~~ or in respect of different types of documents. The table is a general illustration only and is not intended to identify and cover every situation.

LENGTH OF CHANGE PERIOD

6. HKSIR 400 (Revised) provides that the period of time since the latest financial information was subject to an audit or review engagement, should be considered by the reporting accountants in determining whether negative assurance should be provided on subsequent changes in specified financial statement items ("change period comfort"). The question has been raised as to whether or not there is a "maximum" change period that reporting accountants should consider when concluding whether negative assurance is appropriate.

7. While each particular engagement circumstance should be considered, providing negative assurance on change period comfort where there has been an extended period of time since the issuer's financial information was last audited or reviewed[1] by the reporting accountants may result in a degree of comfort that is unwarranted given the limited nature of the procedures undertaken by the reporting accountants (i.e. reading of minutes and management accounts, if available, and inquiry of the issuer's management regarding the subsequent changes). For Initial Public Offerings ("IPOs") and other public equity offerings by Hong Kong listed issuers, given that the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") generally require that the date of the last audited financial information included in the listing document be not more than six months old as at the date of the listing document, reporting accountants may consider such six-month period as an appropriate benchmark and should generally refrain from providing negative assurance for an equity offering when the change period (i.e. the period beginning subsequent to the date and period of the last audited or reviewed financial information, and ending at the "cut-off" date for the purpose of the comfort letter) is longer than six months.

8. Such "maximum" change period for the purpose of providing negative assurance comfort may need to be shortened depending on the facts and circumstances. For example, when the equity offering involves a concurrent "Rule 144A" exempt offering in the United States ("U.S."), the reporting accountants are often requested to issue a separate comfort letter to cover the U.S. offering following the guidance set forth in the PCAOB's auditing standard (AS) 6101/ the AICPA Auditing Standards Board's clarified auditing standard (AU-C 920), which requires that the negative assurance on subsequent changes cannot be given unless the cut-off date is less than 135 days from the latest balance sheet date upon which the reporting accountants have performed an audit or review. In such circumstance, the reporting accountants are expected to follow the "135-day" rule in their preparation of the HKSIR 400 comfort letter so that the two comfort letters are consistent in respect of the level of change period comfort.

9. For Regulation S debt offerings (including establishments and updates of, and drawdowns under, medium term note programmes) reporting accountants may consider extending the change period for a well established company with a good history of providing reliable financial information. Other factors that the reporting accountants may take into account in evaluating the maximum length of time that is appropriate for the change period comfort may include: whether or not the company is publicly listed (and therefore publishes financial information on a regular basis that is subject to regulatory review and scrutiny), the length of the reporting accountants' relationship with the company and the reporting accountants' assessment of the quality of the company's internal controls over financial reporting. However, in all cases, reporting accountants should generally refrain from providing negative assurance for change period comfort when the cut-off date is more than nine months from the latest balance sheet date upon which the reporting accountants have performed an audit or review.

10. In circumstances in which it is inappropriate to provide negative assurance, whether this is because of the length of the change period or for some other reasons such as those described below under "Year-end and post year-end cut-off dates" the reporting accountants may provide "procedures and findings of agreed-upon procedures performed" on changes in specified line items, as described in footnotes 33 and 42 of HKSIR 400 (Revised).

[1] In most circumstances these latest audited or reviewed financial statements would be included or incorporated in the offering document. If not, the comfort letter should clearly describe these audited or reviewed financial statements (for example, having them included as an appendix to the comfort letter). In these circumstances, the reporting accountants should agree with the addressees of the comfort letter the date from which the change period will be measured (i.e. whether the "change period" being commented on begins on the date subsequent to the audited or reviewed financial statements included/incorporated in the offering document or the date subsequent to the audited/reviewed financial statements not included/incorporated in the offering document). The change period start date should be clearly stated in the comfort letter.

YEAR-END AND POST YEAR-END CUT-OFF DATES

11. Reporting accountants should exercise caution when considering providing comfort on financial information as of a company's year-end date or on subsequent changes in financial statement items where the cut-off date is at or within a few days of the year end. Year-end information generally is, or will be, the subject of audit procedures and may change once the year-end financial statements are published. Although HKSIR 400 (Revised) does not specifically preclude reporting accountants from giving comfort in such circumstances, unless the audit is substantially complete at the cut-off date, reporting accountants should exercise extreme caution before agreeing to:

- Provide "tick-mark" comfort on information as at or ending on a year-end date;
- Read management accounts ending on the financial year end date in order to provide change period comfort; or
- Enquire of management and provide negative assurance with respect to change period comfort using a cut-off date on, or within a few days before or after, the financial year end. For example, enquiring of management and providing negative assurance with respect to changes in financial statement amounts as at a cut-off date of 29 December for a calendar year end company.

12. In terms of exercising caution, reporting accountants should provide comfort in the above circumstances **only** after the year-end audit fieldwork[2] is substantially complete and the reporting accountants are satisfied that there are no other significant matters that would cause a material change to the numbers on which comfort is being given. Where the audit fieldwork is not substantially complete, reporting accountants may agree to provide "bifurcated comfort" on changes in financial statement items with a cut-off date on, or within a few days before or after, the financial year end, as described more fully below (negative assurance based on reading pre year-end management accounts and procedures and factual findings comfort to the cut-off date).

13. Reporting accountants should also be cautious when considering providing negative assurance on changes to a cut-off date ending after the year-end date. When the cut-off date extends beyond the year-end, the reporting accountants may wish to wait until the audit fieldwork is substantially complete or, alternatively, restrict comments to reporting factual findings in the form illustrated in footnotes 33 and 42 of HKSIR 400 (Revised), provided that there is an adequate basis to do so (see paragraph 45 of HKSIR 400 (Revised)). In this situation, where the cut-off date extends beyond the company's financial year end, the reporting accountants may provide bifurcated comfort (negative assurance based on reading pre year-end management accounts and procedures and factual findings comfort to the cut-off date) provided that the overall change period does not exceed the parameters discussed in the section "Length of change period" above. For example, an offering memorandum for a calendar year company issued in January 20X3, may contain 30 June 20X2 or 30 September 20X2 interim financial statements that have been reviewed by the reporting accountants. In connection with the HKSIR 400 (Revised) comfort letter, the reporting accountants may be requested to read unaudited management accounts for the period up to the end of November of 20X2 and to enquire of company officials about changes in specified financial statement items as of 25 January 20X3 and for the period from 1 October 20X2 to 25 January 20X3. Assuming that there are no factors that would render negative assurance inappropriate based on the specific facts of the transaction (including the overall length of the change period and the time since the last audit or review as described under "Length of change period" above), even though the audit procedures and related fieldwork on the year-end financial statements may not be substantially complete, the reporting accountants may provide negative assurance with respect to changes in specified financial statement items as of 30 November 20X2 and for the period from 1 October 20X2 to 30 November 20X2 (based on reading management accounts for the months of October and November 20X2) and report procedures and factual findings comfort with

[2] The reference to year-end audit fieldwork in this context refers to the entire audit, not those specific procedures related to the identified line items.

respect to changes in specified financial statements items as of 25 January 20X3 and for the period from 1 October 20X2 to 25 January 20X3 consistent with footnotes 33 and 42 of HKSIR 400 (Revised).

14. Similar considerations (potentially implying a level of comfort that is not warranted by the level of work performed as at the date of the comfort letter) apply in the following circumstances:

- Reading (for the purpose of providing change period comfort) interim financial information for a period included in the prospectus or offering circular, where no audit or review of those financial statements has been undertaken by the reporting accountants[3]. It should be noted, however, that although the reporting accountants will not agree to read (for the purpose of providing change period comfort) the interim financial information included in a prospectus or offering memorandum, reporting accountants will ordinarily agree to provide "tick mark" comfort on the information, by agreeing the numbers in the interim financial statements to the company's books and records; and

- Providing negative assurance using a cut-off date within a few days before or on or subsequent to an interim period end, or reading management accounts for an interim period, when the financial statements for that interim period will be subject to a review to be performed in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* (or an equivalent standard) but that review is not substantially complete at the date of the comfort letter. In these circumstances reporting accountants may, however, provide "bifurcated comfort", similar to that described in paragraph 10 above, by agreeing to read management accounts for a period ending before the end of the interim period that will be subject to the review.

In each of the above cases, the reporting accountants should be cautious so as not to inadvertently imply a higher level of comfort on interim or annual financial statements than can be justified by the work completed as of the date of the comfort letter. In particular, where interim or year-end information is still subject to change, it is important that reporting accountants do not give the impression that such change is unlikely by agreeing to give an inappropriate level of assurance or comfort.

CHANGES IN ACCOUNTING POLICIES DURING THE CHANGE PERIOD

15. Reporting accountants should also exercise caution when considering providing change period comfort where there are changes in accounting policies during the change period.

16. In general, the procedures in relation to subsequent changes referred to in paragraphs (1) to (7) of the example comfort letters included in Appendix 2 to HKSIR 400 (Revised) ("standard comfort letter") should be performed on financial information that was prepared in accordance with generally accepted accounting principles ("GAAP") and prepared and presented on a basis consistent with the accounting policies normally adopted by the company and applied in preparing the historical financial information.

17. If the company changes its accounting policies (e.g. due to introduction of a new accounting standard ("New Accounting Standard")) during the change period and the financial statement items requested to be reported on by the reporting accountants during the change period (the "Reported Items") are impacted[4] by the New Accounting Standard, the reporting accountants should pay attention to the following when providing the change period comfort:

[3] Where an interim review of such interim financial information has in fact been undertaken by the reporting accountants, the reporting accountants should generally agree to the reproduction of the review report in the offering circular or to provide comfort in accordance with footnotes 34 or 43 of HKSIR 400 (Revised).

[4] If the Reported Items are not impacted by the New Accounting Standard, the guidance in this section is generally not applicable to the case and the reporting accountants should refer to the requirements and guidance set out in HKSIR 400 (Revised) and other sections of AATB 3 when providing the change period comfort.

a) If the management accounts for the current period referred to in paragraph (1)(b) of the standard comfort letter are not prepared in accordance with the New Accounting Standard, the reporting accountants generally should not agree to read the managements accounts because such management accounts are not prepared in accordance with GAAP.

b) If the management accounts for the current period referred to in paragraph (1)(b) of the standard comfort letter are prepared in accordance with the New Accounting Standard, consideration needs to be given as to whether the New Accounting Standard would be applied prospectively or retrospectively by the issuer in its annual accounts covering the change period.

   (i) If the New Accounting Standard will be applied retrospectively in the annual accounts covering the change period and the company has not yet restated[5] the comparative financial information used for providing the change period comfort (the "Comparatives") to reflect the retrospective application of the New Accounting Standard, the reporting accountants can only provide procedures and factual findings comfort on the subsequent changes because the Comparatives are different from those to be presented in the company's annual accounts covering the change period.

   (ii) If the New Accounting Standard will be applied prospectively in the subsequent annual accounts, the issue mentioned in (i) above does not exist and the reporting accountants can provide negative assurance on the subsequent changes provided that the other criteria for providing negative assurance on the subsequent changes set out in HKSIR 400 (Revised) and this implementation guidance are met.

For both (i) and (ii) above, the comfort letter should indicate that the results set out in paragraph (5) of the standard comfort letter should be considered in light of the fact that the financial information for the current period has been prepared in accordance with the New Accounting Standard while the comparative financial information is not prepared on that basis. In addition, for (i) above, the comfort letter should further indicate that the findings might have been different from those that are reported in the comfort letter if the company had restated the comparative financial information to reflect the retrospective application of the New Accounting Standard.

For example, the following paragraphs should be added to the standard comfort letter:

For situation (i):
Insert the following paragraph after paragraph (2)(b) of the standard comfort letter:
"The Persons Responsible for Financial and Accounting Matters advised us that the April 20X5 Management Accounts have been prepared and presented on a basis consistent with the accounting policies normally adopted by the Group and applied in preparing the Historical Financial Information except that the Group has applied HKFRS XXX (the "New Accounting Standard") to the April 20X5 Management Accounts with effect from 1 January 20X5 and has not restated the comparative financial information to reflect the retrospective application of the New Accounting Standard. The Persons Responsible for Financial and Accounting Matters advised us that, for the annual financial statements for the year ended 31 December 20X5, they will apply HKFRS XXX from 1 January 20X5 using the retrospective approach (with certain practical expedients selected), and will restate the comparative financial information."

[5] If the company has restated the Comparatives, the guidance in this section is generally not applicable to the case as there will not be changes in accounting policies during the change period. The reporting accountants should refer to the requirements and guidance set out in HKSIR 400 (Revised) and other sections of AATB 3 when providing the change period comfort.

Insert the following paragraph after paragraph (5)(b) of the standard comfort letter:
"The above results should be considered in light of the fact as noted in paragraph (2)(b) above that the Group has applied the New Accounting Standard to the April 20X5 Management Accounts with effect from 1 January 20X5 and has not restated the 31 December 20X4 historical financial information and the April 20X4 Management Accounts to reflect the retrospective application of the New Accounting Standard. If the Group had restated the 31 December 20X4 historical financial information and the April 20X4 Management Accounts to reflect the retrospective application of the New Accounting Standard, [*for cases without exceptions:* increases or decreases in the balances or amounts referred to above might have been reported to you.] / [*for cases with exceptions:* the amounts of increases or decreases reported to you might have been different from the above and other increases or decreases in the balances or amounts referred to above might have been reported to you.]"

For situation (ii):
Insert the following paragraph after paragraph (2)(b) of the standard comfort letter:
"The Persons Responsible for Financial and Accounting Matters advised us that the April 20X5 Management Accounts have been prepared and presented on a basis consistent with the accounting policies normally adopted by the Group and applied in preparing the Historical Financial Information except that the Group has applied HKFRS XXX (the "New Accounting Standard") to the April 20X5 Management Accounts with effect from 1 January 20X5 and has not restated the comparative financial information to reflect the retrospective application of the New Accounting Standard as [permitted/provided] by the New Accounting Standard. The Persons Responsible for Financial and Accounting Matters advised us that, for the annual financial statements for the year ended 31 December 20X5, they will apply the HKFRS XXX from 1 January 20X5, and will not restate the comparative financial information as [permitted/provided] by the New Accounting Standard."

Insert the following paragraph after paragraph (5)(b) of the standard comfort letter:
"The above results should be considered in light of the fact as noted in paragraph (2)(b) above that the Group has applied the New Accounting Standard to the April 20X5 Management Accounts with effect from 1 January 20X5 and has not restated the 31 December 20X4 historical financial information and the April 20X4 Management Accounts to reflect the retrospective application of the New Accounting Standard as [permitted/provided] by the New Accounting Standard."

18. Similar considerations apply when providing change period comfort for the period immediately preceding the cut-off date for which complete accounting information is not yet available (i.e. the procedures referred to in paragraphs (6) and (7) of the standard comfort letter).

FORM OF COMFORT LETTER

19. An issue frequently encountered by practitioners is whether or not the example comfort letters included in the appendices to HKSIR 400 (Revised) are intended to be "standard" forms that reporting accountants must follow without substantive modifications. The example comfort letters included in Appendix 2 and Appendix 3 to HKSIR 400 (Revised) are intended to be used as examples only and are not intended as illustrations of the form and content of comfort letters issued under HKSIR 400 (Revised) that would be appropriate in every situation. Those example comfort letters should be distinguished from the example arrangement letters included in Appendix 1 to HKSIR 400 (Revised), which should generally be followed without substantive modifications as the terms and conditions set forth in the example arrangement letters were largely agreed by the major investment banks and accounting firms as part of the revisions made to HKSIR 400 (Revised).

20. Reporting accountants should appropriately modify the example comfort letters to suit the particular engagement specific facts and circumstances (for example, when it is determined that negative assurance for change period comfort is not appropriate). Also, reporting accountants should not be restricted from including matters of emphasis in the comfort letters as they deem necessary as long as they do not contradict or otherwise supersede the agreed terms and conditions set forth in the HKSIR 400 (Revised) arrangement letter.

21. Other common issues that may require the comfort letter to be updated to reflect actual facts and circumstances include:

    a) The absence of management accounts subsequent to the latest financial statements included or referenced in an offering circular. In this case, references to subsequent management accounts would be removed, along with the concluding sentence in paragraph 1 and the whole of paragraphs 2, 3 and 5 under the section headed "Changes in Financial Position" of the standard comfort letter. In addition, the introductory sentence of paragraph 6 would be updated, for example, as follows:

       "Since the directors have advised us that no management accounts have been prepared to any date subsequent to [date of latest financial statements included or referred to in an offering circular], the procedures carried out by us with respect to changes in financial statement items of the [Issuer/Group] after [date of latest financial statements included or referred to in an offering circular] have of necessity been limited."

    b) In some circumstances, notably when issuing comfort letters in relation to updates of medium term note programmes and when providing comfort on repeat transactions where previous arrangement and comfort letters have been expressed to be governed by the laws of a country other than Hong Kong and/or in relation to which the parties to the arrangement letter submit to the jurisdiction of that other country's courts, reporting accountants may wish to consider adopting a continuation of this approach.

    c) Certain sponsor(s), manager(s) or, as the case may be, arranger(s)/dealer(s) have a preference for alternative language in standard paragraphs 5 and 7, when setting out exceptions noted in respect of changes in specified financial statement items. If requested to do so, reporting accountants may consider replacing the phrase "*except that* the [July 20X5 management accounts showed a decrease….]" with the alternative "*however* the [July 20X5 management accounts showed a decrease….]"

22. Reporting accountants should also note that the list of procedures to be conducted with reference to the provision of "tick mark" comfort in HKSIR 400 (Revised) is not intended to be exhaustive and that different or additional procedures may be required and appropriate in some cases, subject to the general considerations set out in paragraphs 28 to 40 of HKSIR 400 (Revised).

AUDITED/ REVIEWED FINANCIAL STATEMENTS REPRODUCED IN AN OFFERING CIRCULAR

23. The fourth paragraph of Example 2, Appendix 2 to HKSIR 400 (Revised) (example comfort letter for a debt offering in reliance on Regulation S) states:

    "On pages [x to x], the offering circular of the Company with respect to the Notes dated 20[x] (the "Offering Circular") sets out certain financial statements as at and for the [three] years ended 31 December 20X2, 20X3 and 20X4 (the "Historical Financial Statements") [and the [six] months ended 30 June 20X4 and 20X5] (the "Interim Financial Statements") of the [Company/Guarantor] and its subsidiaries (the "Group"). We have read this information and have compared it with that shown in the published audited consolidated financial statements as at and for the [three] years ended 31 December 20X2, 20X3 and 20X4 [and the published unaudited consolidated interim financial statements as at and for the [six] months ended 30 June 20X4 and 20X5] of the [Company/Guarantor]. We confirm that these financial statements have been found to be in agreement with the published audited consolidated financial statements for the relevant years [or, as the case may be, the published unaudited consolidated interim financial statements for such period]. [We did not conduct a review of such interim financial statements in accordance with the standards and guidance issued by the [HKICPA] or any professional body in any other jurisdiction]."

Prior to the issuance of HKSIR 400 (Revised) there were inconsistent views on whether the procedures outlined above could include comparing the full financial statements reproduced in an offering circular back to the original financial statements on which the reporting accountants have opined. Although this procedure is not generally necessary or required for an equity transaction in respect of which the reporting accountants' generally issue a signed accountants report and consent, for a debt transaction the arrangers or dealers may request that such comfort be provided. If so requested, reporting accountants may include the full financial statements (frequently referred to as the "F-pages") within the scope of the above paragraph.

APPENDIX 1

GUIDANCE ON PROVISION OF AN AGREED-UPON PROCEDURES REPORT

In the ~~situation where the requesting parties do not meet the criteria specified~~situations described in paragraph ~~3~~4 of this Technical Bulletin for a comfort letter under HKSIR 400 (Revised), reporting accountants may agree to provide an AUP report according to the requirements and guidance in HKSRS 4400 (Revised). An illustrative AUP report is provided in Appendix 2 to this Technical Bulletin.

In the example set out in Appendix 2, it is assumed that the issuer is the engaging party[1] of the AUP report. Accordingly, the AUP report is addressed solely to the issuer except that the report may be made available to the issuer's advisor(s)[2] involved in the transaction provided that the issuer makes it clear to the advisor(s) that:

a) our procedures are performed and our report is prepared at the direction and in accordance with the instructions from the issuer and exclusively for the issuer's benefit and use and not for the advisor's purpose;

b) the reporting accountants accept no liability or duty of care to the advisor(s) in respect of the AUP report; and

c) the advisor(s) will not provide the AUP report, or a copy thereof, to any other third party or refer to the reporting accountants or the report without the reporting accountants' prior written consent except (i) as may be requested or required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the advisors are complying with provided that the reporting accountants accept no liability or duty of care to such regulatory body or stock exchange or (ii) to such advisor's affiliates and their respective consultants, advisors and counsels, on condition that the aforementioned persons are informed that the report is prepared for the issuer's sole benefit and the reporting accountants accept no liability or duty of care to them and that they are subject to the same restrictions on disclosure that apply to the advisor(s).

For the avoidance of doubt, the foregoing would not apply if a party is an engaging party who would acknowledge the appropriateness of the procedures.

To avoid misinterpretation of the results set out in the AUP report, advisors requesting to be the addressees of the AUP report have to be the engaging parties and acknowledge the appropriateness of the procedures.

The table set out in Appendix 3 suggests the type of letter or report that reporting accountants may provide under different types of transactions~~.~~ or in respect of different types of documents. The table is a general illustration only and is not intended to identify and cover every situation.

[1] Under HKSRS 4400 (Revised), engaging parties are party(ies) that engage(s) the practitioner to perform the AUP engagement.

[2] In general, if providing the AUP report to a party other than the engaging party, such party should be involved in the transaction, such as the advisor(s) to the engagement party in the proposed transaction. Names/titles/roles referred to in this Technical Bulletin are based on general practices and may differ from the name/title/role used on the relevant transaction.

APPENDIX 2

EXAMPLE AGREED-UPON PROCEDURES REPORT

Based on HKSRS 4400 (Revised), *Agreed-Upon Procedures Engagements*

(Effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022)

For purposes of this illustrative AUP report, the following circumstances are assumed:

- Advisors are not the engaging party nor the addressee of the AUP report.[1]
- The agreed-upon procedures and findings are with respect to an issuer's acquisition of a target company.
- The issuer is the engaging party. There is a restriction on the use and distribution of the report. The report can be made available to the issuer's advisor(s) provided the issuer makes it clear to the advisor(s) that the following conditions as specified in the report are met:
  (a) Our procedures are performed and our report is prepared at the direction and in accordance with the instructions from the issuer and exclusively for the issuer's benefit and use and not for the advisor's purpose;
  (b) The reporting accountants accept no liability or duty of care to the advisor(s) in respect of the agreed-upon procedures report; and
  (c) The advisor(s) will not provide this report, or a copy thereof, to any other third party or refer to the reporting accountants or this report without the reporting accountants' prior written consent except (i) as may be requested or required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the advisors are complying with provided that the reporting accountants accept no liability or duty of care to such regulatory body or stock exchange or (ii) to such advisor's affiliates and their respective consultants, advisors and counsels, on condition that the aforementioned persons are informed that the report is prepared for the issuer's sole benefit and the reporting accountants accept no liability or duty of care to them and that they are subject to the same restrictions on disclosure that apply to the advisor(s).
- No exceptions were found. For example, in undertaking the agreed-upon procedures, the reporting accountants noted that the specified amount agreed to the corresponding amount appearing on the schedule specified by the procedure.
- The reporting accountants did not engage an expert to perform any of the agreed-upon procedures.
- The reporting accountants have agreed with the issuer that the reporting accountants' compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. The reporting accountants have agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.
- The reporting accountants included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

[1] To avoid misinterpretation of the results set out in the AUP report, advisor(s) requesting to be the addressees of the AUP report have to be the engaging party or one of the engaging parties and acknowledges the appropriateness of the procedures.

AGREED-UPON PROCEDURES REPORT ON SELECTED FINANCIAL INFORMATION OF [XYZ Limited] AND [Name of the target company]

To [Directors, XYZ Limited]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting XYZ Limited (the “Issuer”) in evaluating whether certain financial information of the Issuer and [Name of the target] (the “Target”) included in the circular relating to the proposed acquisition of the Target by the Issuer (the “Circular”) is in agreement with the accounting records of the Issuer and the Target and may not be suitable for another purpose. This report is intended solely for the Issuer, and should not be used by, or distributed to, any other parties except that this report may be made available to the Issuer’s advisor(s) involved in this transaction provided that you make clear to them that (i) our procedures are performed and our report is prepared at the direction and in accordance with instructions from the Issuer and exclusively for the Issuer’s benefit and use and not for the advisor’s purpose and that we accept no liability or duty of care to them in respect of this report; and (ii) such receipt is strictly on the basis that they will not provide this report, or a copy thereof, to any other third party or refer to us or this report without our prior written consent except (i) as may be requested or required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the advisors are complying with provided that the reporting accountants accept no liability or duty of care to such regulatory body or stock exchange or (ii) to such advisor’s affiliates and their respective consultants, advisors and counsels, on condition that the aforementioned persons are informed that the report is prepared for the Issuer’s sole benefit and the reporting accountants accept no liability or duty of care to them and that they are subject to the same restrictions on disclosure that apply to the advisor(s).

Responsibilities of the Issuer

The Issuer has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The Issuer is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner’s Responsibilities[2]

We have conducted the agreed-upon procedures engagement in accordance with the Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Issuer, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

[2] Reporting accountants may consider it appropriate to include a limitation of liability clause in accordance with his/her firm’s risk management policies.

Professional Ethics and Quality ~~Control~~[~~3~~]Management

We have complied with the ethical requirements in [describe the relevant ethical requirements] and the independence requirements in accordance with [describe the relevant independence requirements].[~~4~~3]

Our firm applies Hong Kong Standard on Quality ~~Control (HKSQC)~~Management 1, *Quality ~~Control~~Management for Firms that Perform Audits ~~and~~or Reviews of Financial Statements, ~~and~~or Other Assurance ~~and~~or Related Services Engagements*, ~~and accordingly, maintains~~which requires the firm to design, implement and operate a ~~comprehensive~~ system of quality ~~control~~management including ~~documented~~ policies ~~and~~or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. [~~5~~]

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Issuer in the terms of engagement letter dated [Date] on selected financial information of the Issuer and the Target.

We have read the items that you have identified as indicated on the attached extract of the Circular (attached as Appendix 1[~~6~~4]) and have performed the following procedures, which were applied as indicated by the letters explained below.

In the following procedures, the "Group" refers to the Issuer and its subsidiaries, and the "Target Group" refers to the Target and its subsidiaries.

	Procedures	**Findings**
A	[Compare the amount or percentage to][Recalculate the amount [and percentage] from] the corresponding amount [and percentage] appearing in the [historical financial statements][the interim financial statements] of the Issuer as set out in Appendix I of the Circular and in the historical financial information of the Target as set out in Appendix II of the Circular.	We [compared the amount or percentage to][recalculated the amount [and percentage] from] the corresponding amount [and percentage] appearing in the [historical financial statements][the interim financial statements] of the Issuer as set out in Appendix I of the Circular and in the historical financial information of the Target as set out in Appendix II of the Circular. We found them to be in agreement.
B	Compare the [amount][percentage] to the corresponding [amount][percentage]	We compared the [amount][percentage] to the corresponding [amount][percentage] appearing on a schedule prepared by the

~~3 Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement* will be effective for related services engagements beginning on or after 15 December 2022. It will replace HKSQC 1. Firms applying HKSQM 1 should replace the header with "*Professional Ethics and Quality Management*".~~

~~4~~3 For example, if the *Code of Ethics for Professional Accountants* issued by the HKICPA is the relevant ethical requirements and Part 4A, Chapter A of the Code is the relevant independence requirements, this sentence may be worded along the following: "We have complied with the ethical requirements of the Code of Ethics for Professional Accountants (Code) and the independence requirements in Part 4A, Chapter A of the Code."

~~5 HKSQM 1 will be effective for related services engagements beginning on or after 15 December 2022. It will replace HKSQC 1. Firms applying HKSQM 1 should replace this paragraph with the following: "Our firm applies Hong Kong Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements."~~

~~6~~4 Not illustrated in this example report.

	appearing on a schedule prepared by the management of the Issuer (“schedule”). Enquire of the management of the Issuer whether the information in the schedule was derived from the regularly maintained accounting records of the Group and the Target Group (“accounting records”) and was subject to internal controls, policies and procedures of the Group and the Target Group over financial reporting and compare the amounts shown on the schedule to the accounting records provided by management.	management of the Issuer. We found them to be in agreement. The management of the Issuer has represented to us that the information in the schedule [was derived from the regularly maintained accounting records of the Group and the Target Group and was subject to the internal controls of the Group and the Target Group over financial reporting]. [We compared the amounts shown on the schedule prepared by the management of the Issuer with the accounting records of the Group and the Target Group] and found such amounts to be in agreement.
C	Recalculate the amount, percentage or ratio based on the information in the same sentence, paragraph or table.	We recalculated the amount, percentage or ratio based on the information in the same sentence, paragraph or table and found them to be arithmetically accurate.
D	Recalculate the [United States dollar] amount based on the corresponding [*reporting currency*] amount and the rate of US$[x] to [x] as specified on page [ ] in the Circular.	We recalculated the [United States dollar] amount based on the corresponding [*reporting currency*] amount and the rate of US$[x] to [x] as specified on page [ ] in the Circular and found them to be arithmetically accurate. However, we make no comment as to the appropriateness of such rate or whether the [*reporting currency*] could have been, or could be, converted into [United States dollars] at that rate.

For the purposes of reporting our findings, in those instances in which one or more of the compared or recalculated amounts (including percentages and ratios) stated were rounded to some degree, we have nevertheless stated that we found the compared or recalculated amounts to be in agreement or arithmetically accurate if differences are attributable to rounding.

We make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the aforementioned procedures. Further, we have addressed ourselves solely to the foregoing data in the Circular and we make no representations regarding the adequacy of disclosures or regarding whether any material facts have been omitted.

[Practitioner’s signature]
[Date of practitioner’s report]
[Practitioner’s address]

APPENDIX 3

TYPE OF LETTER OR REPORT FOR DIFFERENT TYPES OF TRANSACTIONS OR DOCUMENTS

This appendix is designed to assist reporting accountants to determine whether an engagement in accordance with HKSIR 400 (Revised) is appropriate with respect to an issuer's transaction.

This appendix is not a substitute from reading the relevant regulatory requirements, HKSIR 400 (Revised) and the relevant professional standards in full and should be applied to an entity's specific facts and circumstances. Professional judgment should be used by reporting accountants in their application. No responsibility for loss occasioned to any person acting or refraining from action as a result of any contents in this material can be accepted by the HKICPA.

Users of this material are presumed having an understanding of the relevant regulatory requirements applicable to the circumstance, the entire text of HKSIR 400 (Revised) and HKSRS 4400 (Revised).

The following table suggests the type of letter or report to be provided by reporting accountants under different types of transactions~~.~~ or in respect of different types of documents. This table is a general illustration only and is not intended to identify and cover every situation. It only covers common transactions under the Main Board or GEM Listing Rules, The Codes on Takeovers and Mergers and Share Buy-Backs issued by Securities and Futures Commission (the "Takeovers Code") and Regulation S under the US Securities Act of 1993, as amended ("Regulation S"). In case of other transactions or transactions governed by other laws or regulations, reporting accountants should apply professional judgment to consider whether the guidance provided by the table is applicable.

	~~Type~~Types of ~~transaction~~transactions / documents	**Type of letter or report** **(Provided that the conditions set out in this Technical Bulletin, HKSIR 400 (Revised) and HKSRS 4400 (Revised), as applicable, are met)**
1	Hong Kong IPOs -- Offers for sale/Offers for subscription (Main Board Listing Rules) 7.02 - 7.08 or GEM Listing Rules 10.3 - 10.10)	Comfort letter under HKSIR 400 (Revised) (for a Hong Kong public offer and/or international offerings in reliance on Regulation S)
2	Hong Kong listing by introduction (i.e. no fundraising) (Main Board Listing Rules 7.13 - 7.17 or GEM Listing Rules 10.17 - 10.22)	Comfort letter under HKSIR 400 (Revised)
3	Rights issues/ open offers by Hong Kong listed issuers (Main Board Listing Rules 7.18 - 7.27A or GEM Listing Rules 10.23 - 10.44)	Comfort letter under HKSIR 400 (Revised) (for a Hong Kong public offer and/or international offerings in reliance on Regulation S)
4	Capitalization issues/ Consideration issues/ Exchange issues/ Other methods by Hong Kong listed issuers (Main Board Listing Rules 7.28 - 7.34 or GEM Listing Rules 10.45 - 10.52)	Not applicable
5	Undocumented placings by Hong Kong listed issuers (straight placings or top-ups; specific mandate or general mandate) or sell downs by an existing shareholder (Main Board Listing Rules 7.09 - 7.12A or GEM Listing Rules 10.11 - 10.16)	Not applicable
6	Debt offerings (including, but not limited to, establishments of and updates to program documentation)	Comfort letter under HKSIR 400 (Revised) (for Hong Kong tranche (if applicable) and Regulation S)
7	Documented capital markets offerings not otherwise covered herein (e.g. preference shares, equity linked securities) of Hong Kong listed issuers	Comfort letter under HKSIR 400 (Revised) (for a Hong Kong tranche (if applicable) and Regulation S).
8	Documents pursuant to the Takeovers Code issued by Securities and Futures Commission – response document of the offeree (and for securities exchange offers, offer document of the offeror) – or equivalent parts of a scheme or other composite document and whitewash circulars	AUP engagement under HKSRS 4400 (Revised)
9	Main Board or GEM Listing Rules circulars – where sponsor due diligence (or due diligence equivalent to that standard) is required by the Main Board or GEM Listing Rules to be performed including an extreme transaction/ reverse takeover or circular for	Comfort letter under HKSIR 400 (Revised)

	~~Type~~Types of ~~transaction~~transactions / documents	**Type of letter or report** **(Provided that the conditions set out in this Technical Bulletin, HKSIR 400 (Revised) and HKSRS 4400 (Revised), as applicable, are met)**
	a De-SPAC (Special Purpose Acquisition Company) transaction.	
10	Main Board or GEM Listing Rules circulars where sponsor due diligence (or due diligence equivalent to that standard) is not required by the Main Board or GEM Listing Rules to be performed including – major/ very substantial acquisitions/ very substantial disposal/ connected transactions	AUP engagement under HKSRS 4400 (Revised)
11	Filings with the China Securities Regulatory Commission (“CSRC”) for transactions that fall under the scope of the “Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies” released by the CSRC	AUP engagement under HKSRS 4400 (Revised)